

**REPORT TO THE THIRTIETH LEGISLATURE
STATE OF HAWAII
2019**

DRINKING WATER TREATMENT REVOLVING LOAN FUND

**PURSUANT TO SECTION 340E-33
HAWAII REVISED STATUTES**

**RELATING TO THE
DRINKING WATER TREATMENT REVOLVING LOAN FUND
OF THE DEPARTMENT OF HEALTH**

**PREPARED BY:
STATE OF HAWAII
DEPARTMENT OF HEALTH
ENVIRONMENTAL MANAGEMENT DIVISION
SAFE DRINKING WATER BRANCH**

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OPERATIONS & ADMINISTRATION SECTION

A. INTRODUCTION

This annual report is submitted to the State of Hawaii Legislature pursuant to Section 340E-33 of the Hawaii Revised Statutes. It covers the reporting period State Fiscal Year (SFY) July 1, 2017 to June 30, 2018 and describes how the Hawaii Drinking Water Treatment Revolving Loan Fund (DWTRLF) met its goals and objectives as identified in the Intended Use Plan (IUP) and Capitalization Grant Application. This report also discusses the sources and uses of the funds during SFY 2018.

B. PROGRAM SUMMARY

Nationally, the Drinking Water State Revolving Fund (DWSRF) program was established under the Safe Drinking Water Act (SDWA) Amendments of 1996, signed by President Clinton on August 6, 1996. This authorized the EPA to award capitalization grants to states.

The State of Hawaii DWTRLF program was established by the 1997 State Legislature as the result of the 1996 Federal amendments to the Safe Drinking Water Act. This allowed the state Department of Health (DOH) to accept the capitalization grants from the EPA.

Hawaii's program is managed by the DOH, Safe Drinking Water Branch (SDWB) and Environmental Resources Office-Water Revolving Fund Staff (ERO-WRFS). It provides low-interest loans to its four County water departments for the construction of drinking water infrastructure projects. These projects help to achieve or maintain compliance with drinking water standards, improve and expand their drinking water infrastructure, and help protect the public's health and the environment of Hawaii.

During SFY 2018, Hawaii received a federal capitalization grant of \$8,241,000.00 and state matching funds of \$1,648,200.00 for a total of \$9,889,200.00. Total funds committed during this period totaled \$15,960,611.00.

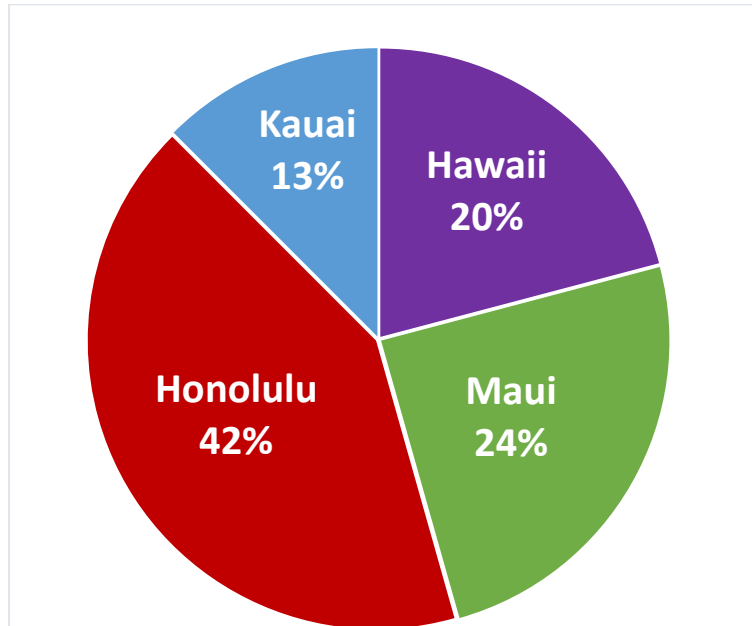
C. MAJOR INITIATIVES

From SFY 1997 through SFY 2018 the DWSRF has issued \$344,172,108.49 of final loans to the state's four county water departments. The table below lists the cumulative loan amounts issued to each county.

County	Cumulative Final Loan Amount (\$)
Kauai	45,332,936.37
Honolulu	146,145,669.02
Maui	83,810,497.68
Hawaii	68,883,005.42
Total	344,172,108.49

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The chart below illustrates the share of loans issued to each county since the program's inception.



Final Loan Agreements executed in SFY 2018:

Borrower	Project Name	Project Location	Loan Amount (\$)
County of Honolulu, Board of Water Supply	Energy Savings Performance Contracting-BWS Facilities (Supplemental loan increase)	Honolulu, HI	10,960,611.00
County of Hawaii, Department of Water Supply	Hawaii DWS Pro-Fi SFY 2018	Hilo, HI	5,000,000.00
Total Final Loan Agreements			15,960,611.00

Meeting Funding Requirements

1. State Matching Funds

Required state matching funds equal to 20 percent of the total capitalization grant were provided by the Hawaii State Legislature.

Federal regulations, 40 CFR §35.3550(g) requires that the State must agree to deposit into its DWSRF an amount equaling to at least 20 percent of the amount of each grant payment. The State must also identify the source of the matching amount in the capitalization grant application and must establish to EPA's Regional Administrator satisfaction that the source is not Federal money.

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Since 1998, the Hawaii DWSRF program has disbursed \$313.3 million¹ in cumulative project assistance and has received cumulative state match contributions of \$36.5 million¹. This is an 858% return on federal investment for the state of Hawaii in terms of translating state match dollars into safe drinking water infrastructure.

2. Commitment of Funds

The requirement is to commit funds in an amount equal to the amount of each Capitalization Grant payment (Capitalization Grant less set-aside and in-kind services amounts) of \$8,241,000.00 and the accompanying State Match that is deposited into the Loan Fund.

This requirement was met with the execution of \$15,960,611.00 in final loan agreements.

The Metrics and Targets to Support Fulfilling the Hawaii DOH SRF Corrective Action Plan (Metrics), received by letter dated March 14, 2018, required DOH to provide results of SFY 2018 financial target measures (executed assistance agreements and disbursements) by September 30, 2018. The SFY 2018 disbursement total equaled \$44,662,643.18 which was greater than the disbursement target of \$41,433,695.00, based on the April 1, 2018 Financial Operations and Cash-flow Utilization in the SRF (FOCUS) financial planning model. The SFY 2018 commitment (executed loans) value of \$15,960,611.00 was \$4,500,000.00 less than the commitment target of \$20,460,611.00 as planned in the SFY 2018 Intended Use Plan – Amendment 1. The MDWS-0002 Maui DWS Water System Improvements 1 project listed in Table 5 - Fundable List of Projects was not executed due to delays in State Historic Preservation Division review. It was moved to the SFY 2019 IUP Fundable List and was signed on September 27, 2018.

The DW331-0068 Energy Savings Performance Contracting-BWS Facilities project executed the second third (and first supplemental loan) of the listed amount. The first third of the project cost was executed with the initial loan in SFY 2017. The final third of the project cost will be executed in a second supplemental loan in SFY 2019.

The Hawaii DWSRF executed its second Programmatic Financing (Pro-Fi) loan with the HDWS-PF18 Hawaii DWS Pro-Fi SFY 2018. It was the first Pro-Fi for the County of Hawaii borrower.

3. Additional Subsidy

In SFY 2018 the DWSRF program was required to provide loan recipients \$1,648,200.00 in additional subsidy from the Federal Fiscal Year (FFY) 2017 capitalization grant. Additional subsidy is required to be committed in final loan agreements within one year of the award of the capitalization grant and is in the form of principal forgiveness.

The additional subsidy for SFY 2018 was committed to the MDWS-0002 Maui DWS Water System Improvements 1, and the HDWS-PF19 Hawaii DWS Pro-Fi SFY 2019. The

¹ Disbursement based on the Loans and Grants Tracking System Disbursement Log Report totals through 6/30/2018.

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MDWS-0002 loan was signed on September 27, 2018. The HDWS-PF19 is expected to be executed in November 2018.

4. Federal Funding Accountability and Transparency Act (FFATA)

The FFATA requires the reporting of funded projects whose loan amounts add up to the amount of the capitalization grant.

This requirement was met with the Energy Savings Performance Contracting – BWS Facilities (Supplemental Loan Agreement 1) for \$8,241,000.00.

5. Reporting Requirements

The major reporting vehicles were the DWSRF Project Benefits Reporting (PBR) system and the Drinking Water State Revolving Fund National Information Management System (DWNIMS). Reporting included information for projects with executed final loan agreements such as the use of funds for the GPR and Additional Subsidization.

6. Minority Business Enterprises (MBE) / Woman Business Enterprises (WBE)

As part of the program's compliance with the federal SRF requirements, form 5700 52A (*U.S. Environmental Protection Agency MBE/WBE Utilization under Federal Grants, Cooperative Agreements, and Interagency Agreements*) is now submitted directly to EPA on an annual basis.

All forms are signed by the program's authorized representative and are on file with EPA.

7. Davis-Bacon Requirements

All DWSRF funded projects must meet the requirements of the Davis-Bacon Act in paying at or above Federal wage rates. The program requires the borrower's signature on each payment request that certifies compliance with the Act.

8. American Iron and Steel (AIS)

Each DWSRF funded project must meet the requirements of AIS. Borrowers were asked to submit AIS certifications to DOH, when applicable. Certifications were uploaded to the respective project files in the Loans and Grants Tracking System (LGTS). Visible AIS compliant items were also verified during the nine (9) site inspections conducted during SFY 2018. No deficiencies were found.

The DWSRF program allows its borrowers to use the AIS De Minimis waiver, at their discretion, as long as it is tracked and reported to DOH by the borrower. Only one (1) project listed components as de minimis – the Iao Surface Water Treatment Plant Upgrades project. This was verified through a certification waiver from the manufacturer and the fact that the items met the terms of the waiver. The waived material cost and certification were uploaded to the project file in LGTS.

9. Signage Requirements

The program must comply with the DWSRF Signage Guidelines to enhance public awareness of EPA assistance agreements nationwide. This must be done for projects up to the amount of the capitalization grant.

The requirement was met with the Energy Savings Performance Contracting – BWS Facilities (Supplemental Loan Agreement 1) for \$8,241,000.00. A photo of the sign has been uploaded to the project file in LGTS.

10. Technical, Managerial, and Financial Capacity

Each DWSRF funded project must be reviewed for Technical, Managerial, and Financial (TMF) Capacity. In SFY 2017, the DWSRF Program developed a checklist for the review of TMF Capacity. The TMF Capacity review for all loans issued in SFY 2018 were completed and supporting documents uploaded to the respective project file in LGTS.

D. PROGRAM AND SET-ASIDE ACTIVITIES

Sections 1452(g)(2) and 1452(k) of the Safe Drinking Water Act allows each state to set-aside up to 31 percent of its federal capitalization grant to support various drinking water program activities including administration, State program management, technical assistance and other special activities. The following activities were conducted in SFY 2018 under these set-asides:

1. Administrative Loan Fees and Administrative Cost (4%)

The state does not contribute any money toward administering the DWTRLF Program and its drinking water-related programs. Furthermore, federal law requires that the DWTRLF program be operated in perpetuity. Thus, to pay for employee salaries and benefits and to comply with the federal law, the DOH implemented a loan fee program on May 17, 2000. For SFY 2018, the DWTRLF program collected \$2,285,067.46 in administration loan fees.

The Water Infrastructure Improvements for the Nation (WIIN) Act of 2016, §2103, provided “states with two additional options to calculate the maximum allowable Administration and Technical Assistance set-aside that can be taken for capitalization grants awarded after 12/16/2016. States may take up to \$400,000.00, 1/5th of a percent of the current valuation of the fund, or 4 percent of capitalization grants awarded, whichever is greater” (2017 CIFA National Policy Conference presentation slide, N. Chamberlain). For SFY 2018, DOH used up to 1/5% of net assets (of \$186,925,731.53) which is a little more than \$380,000.00. The budget included funding of three positions which would draw \$280,000.00 of the budget within one state fiscal year. The remaining \$93,800.00 of the budget would be used for related travel, single audit expenses, and other miscellaneous expenses and would be drawn in its entirety within one state fiscal year.

The DWSRF program used \$1,023,114.58 in loan fee income to pay for employee salaries, benefits and other related SDWB operating expenses.

2. Small Systems Technical Assistance (2%)

Using \$20,000.00 of the 2% set-aside, the SDWB provided free registration for 53 small water system operators and board members to the 2018 Pacific Water Conference which is the joint conference between the American Water Works Association-Hawaii Section and the Hawaii Water Environment Association (water and wastewater). The pre-conference on February 6, 2018, included a Water Operator Workshop presented by Rural Community Assistance Corporation. The conference on February 7-8, 2018 included manufacturers' exhibits, technical presentations, and networking opportunities for water system staff. DWSRF-related presentations included:

- "Hawaii Water Audit Program Implementation" presented by Neal Fujii of the Department of Land and Natural Resources, Commission on Water Resource Management and Reinhard Sturm of Water Systems Optimization, Inc. (related to the Water Loss Audit funded by 15% set-aside funds)
- "Hawaii Water Audit Program Preliminary Results" by Kris Williams of Water Systems Optimization, Inc. (Related to the Water Loss Audit funded by the 15% set-aside funds)
- "Drinking Water State Revolving Fund: What Can We Do For You?" was presented by Alan Dillon, Joan Corrigan, and Michael Cummings of SDWB
- "Small Water Systems Round Table" with AWWA-Hawaii Section Small Systems Committee Chair Joy Gannon and Section Chair Juanita Colon.

The request for approval for Allowability of Costs for Light Refreshments and Meals (GPI-11-02) Food Policy submitted on August 16, 2017 and granted within the grant award.

The remaining \$138,520.00 balance of the set-aside will fund a contract to provide small systems with technical assistance for Storage Tank Inspections; Engineering Consulting; and Asset Management. The solicitation for Professional Services for the Engineering Services Contract (SDWB-19-002-ASD) and the Storage Tank Inspections (SDWB-19-003-ASD) were conducted in late June 2018. There were eight (8) consultants who will be awarded Engineering Services Contracts in SFY 2019. The Storage Tank solicitation was cancelled because the required three (3) proposals were not received. The SDWB is revising the scope of work to repost the solicitation in SFY 2019.

3. State Program Management (10%)

The Safe Drinking Water Act Amendments of 1996 provided that up to 10 percent of the DWSRF Capitalization Grant could be used for State Program Management. These funds were generally delegated to support four major activities.

"The WIIN Act of 2016, §2103, eliminated the statutory text mandating the additional 1:1 match for the State Program Management set-aside. For capitalization grants awarded after December 16, 2016, states are no longer required to provide the additional match to receive this set-aside," (2017 CIFA National Policy Conference presentation slide, N. Chamberlain).

a. Public Water System Supervision Program

The SDWB continues to successfully implement the terms of the many drinking water rules for which it either has primary enforcement authority (primacy) or intends to apply for primacy. These include: the Revised Total Coliform Rule; the Ground Water Rule; the

Surface Water Treatment Rule; Enhanced Surface Water Treatment Rule; the LT1 and LT2 Enhanced Surface Water Treatment Rules; the Phase 1 Volatile Organic Chemical Rule; Phase II SOC/IOC Rule; the Phase V SOC/IOC Rule; Lead and Copper Rule, including Minor and Short-Term Revisions; Revised Public Notification Rule; Revised Radionuclides Rule; Consumer Confidence Rule; Filter Backwash Recycling Rule; Stage 1 and Stage 2 Disinfectant/Disinfection By-Products Rules; Arsenic Rule; and more.

The Hawaii Public Water System Supervision Program (PWSSP) continues to make substantial progress in improving our sanitary survey compliance. The SDWB completed 24 sanitary surveys of public water systems throughout the state during SFY 2018. These surveys contribute significantly to strengthening the protection of drinking water quality. The SDWB Engineering section has been at 50% staff level since March 2018 and has been unable to fill the vacant positions due to a lack of qualified candidate lists in the State as of September 2018. The Compliance section has one vacant engineering position due to the time it took for the position to be re-described and approved. Engineers from the Engineering and Compliance Sections performed all surveys in-house in SFY 2018.

The program continued to compile laboratory certification information regarding laboratories performing safe drinking water analyses. This information is made available to the water purveyors and the public. Approximately 10 microbiological laboratories and 45 chemistry laboratories hold certifications for one (1) or more drinking water contaminants.

b. Capacity Development Program

The program's capacity development program efforts for SFY 2018 were concentrated in the Technical Assistance Contract described in the Local Assistance and Other State Programs (15%) discussion of this report.

c. Operator Certification Program

The SDWB continues to administer an operator certification program for water treatment plant operators and distribution system operators.

For the period July 1, 2017 to June 30, 2018:

- 75 Applications were received for certification review.
- 9 Reciprocal certifications were issued.
- 33 Persons were tested for the WTPO certification. (Examinations administered on July 24-25, 2017 & January 22-23, 2018.)
- 12 Persons passed the WTPO certification examination.
- 110 Persons were tested for the DSO certification. (Examinations administered on October 23-25, 2017 and April 20-26, 2018.)
- 32 Persons passed the DSO certification examination.
- 217 WTPO certifications were active as of June 30, 2018.
- 488 DSO certifications were active as of June 30, 2018.
- 21 Public water systems required to have level 1 certified water treatment plant operators by the level of the plant.

- 10 Public water systems required to have level 2 certified water treatment plant operators by the level of the plant.
- 4 Public water systems required to have level 4 certified water treatment plant operators by the level of the plant.
- 131 Public water systems with at least one distribution system operator certified at the level of the distribution system of the water system.

4. Local Assistance and Other State Programs (15%)

a. Source Water Protection Program

Source water protection efforts have been focused on educating water systems, the public, and other applicable organizations on development and implementation of protection strategies and plans. This year, the SDWB continued to meet with water systems and government agencies on the result of the assessments and plans for source water protection. Source water assessments are also being conducted on new drinking water sources as they proceed through the new source approval and engineering report process.

- i. SWAP Modeling Upgrade and Characterize the Regional Groundwater Flow Paths: “An investigation of Groundwater Flow Paths in South-Central and Southeast Oahu” was proposed in January 2018 by the University of Hawaii – Water Resources Research Center to be conducted between February 1, 2018 to September 2, 2019 for \$80,000.00 with 15% DWSRF set-aside funds. The Memorandum of Agreement (SDWB-18-001-RW) was executed on March 1, 2018. This was to be the first of the statewide source water protection program projects to update the SWAP model. In SFY 2019, on July 24, 2018, the project officer was informed that, due to the delay in the Quality Assurance review of the Work Plan and Sample Analysis Plan, the funding for this project was being moved to the Program Fees fund. We plan to incorporate most of the unofficial comments to continue this project forward.
- ii. Cesspool Contamination Risk Evaluation: “An Evaluation of the Cesspool Contamination Risk to Public Drinking Water Sources on Kauai and Maui” was proposed to begin disbursing \$97,000.00 in February 2018. The project was converted to the “Investigation of Cesspool Upgrade Alternatives for Upcountry Maui” to be conducted by the University of Hawaii – Water Resources Research Center between June 1, 2018 to May 31, 2019 for \$99,609.00 with 15% SRF set-aside funds. The Memorandum of Agreement (SDWB-19-001-RW) was executed on August 13, 2018.

b. Wellhead Protection Program

Hawaii’s Wellhead Protection Program (WHP) Plan included a Financial Assistance Program (FAP) that allowed the SDWB to provide funding/grants to public water systems for water protection planning and implementation protection projects and activities. This past year, funds were used for:

- i. The County of Maui, Department of Water Supply successfully implemented a source water/wellhead protection program. “Due to an unexpected proposal cost increase by RMH to capture and process orthophotography for GIS mapping of critical 2-7 Wellhead Protection Zone (WPZ) areas on the island of Maui, we shifted to conduct new potentially contaminating activity (PCA) resurvey on the Island of Molokai, and scrambled to secure contractors to remove 23 vehicles, and two (2) filled 50 gallon oil

containers from two different properties in close proximity to DWS source water wells within critical 2-yr WPZ/s in Waihee and Haiku.” This followed “another successful project to remove close to 2 tons of illegally-dumped vehicles, parts, and other hazardous waste, substances, and materials within our critical West Maui Lahainaluna MDWS wellhead capture zone.” The contract was effective October 31, 2016, through July 31, 2017, and extended to February 28, 2018. The contract was originally planned to utilize 15% DWSRF set-aside funds but was executed with funds from the Non-Program Fees because of the uncertainty of drawdown within two (2) years of the grant award. The State disbursed \$42,931.65 of the \$46,000.00 and unencumbered the balance.

- ii. Education activities on water quantity and quality/protection issues for the general public, public water systems, water industry professionals, and stakeholders.
- iii. To support the Hawaii Water Works Association Annual Conference on November 1-3, 2017, which included DWSRF presentations - “The Tipping Point: Using DWSRF Funding to Activate Infrastructure Renewal” by Alan Dillon; “Rates Survey and Rates Dashboard” by Glenn Barnes; and a Project WET track with Jonelle Kaohelauii, Juanita Colon, and Daniel Chang (\$20,000.00 disbursed on January 26, 2018).

In the future and per Goal 2 of the *Hawaii DWSRF 15% Set-Aside Multi-Year Business Plan SFY2017-SFY2022 [Hawaii Groundwater Protection Strategy (HIGWPS) Goal 3, Objective 2 and Business Plan Objective 2.3]*, dated September 22, 2017, the WHP-FAP application will be revised and distributed to the public water systems for future protection projects which may include:

- Fund public water systems groundwater protection planning and implementation activities.
- Fund the evaluation of the impact of reused/recycled wastewater on water resources.
- Fund cesspool replacement projects in areas that impact drinking water sources.
- Identify abandoned wells within SWP Areas and fund the sealing and closure of these wells.
- Fund watershed protection projects that impact drinking water sources.

c. Technical Assistance Programs for Water System Operators

i. Circuit Rider Program

The SDWB issued consecutive contracts to provide training to small water systems starting in October 2009 and continuing through September 2018. These contracts are more commonly known as the “Circuit Rider Program.” Under the terms of this contract, the contractor (Rural Community Assistance Corporation) has been meeting with the staff of small, publicly- and privately-owned public water systems and providing hands-on training in technical, financial, and managerial areas.

This program has focused on raising the technical abilities of water system operators, provided managerial training to board members, and has assisted water system managers in understanding the financial capacity arena. The Circuit Riders are also utilizing different outreach formats, like peer group sessions to discuss topics common to several water systems which also allow the water systems the opportunity to network. The circuit riders made visits to 24 different small public water systems in SFY 2018. In addition, the peer group sessions worked with an additional two (2) different public water

systems. Overall, the circuit rider program has made a significant contribution to improving the technical, managerial and financial capacity of existing water systems.

The 2014-2017 Circuit Rider contract is effective October 1, 2014 through September 30, 2017 and utilized 15% DWSRF set-aside funds through the end of SFY 2016. The remaining contract period will utilize Non-Program Fees. SDWB requested to extend the existing contract to September 30, 2018 to provide continuous support to the systems during the development and execution of the next 2019-2021 Circuit Rider contract. The contract requirements were completed before June 30, 2018.

ii. Continuing Education Training Program for Water System Operators

HRWA has continued to independently provide online courses and a joint conference and exposition. The Hawaii Operator Certification Program still supports those efforts to aid in certification renewal.

iii. Water Loss Audit Training and Technical Assistance Program for Water Systems

For SFY2017 -SFY2019, the SDWB is continues to collaborate with the Department of Land and Natural Resources – Commission on Water Resource Management to provide a water loss control audit training and technical assistance program to county and large capacity water systems, as defined in Act 169, 06/30/2016, (Gov. Msg. No. 1271) - http://www.capitol.hawaii.gov/session2016/bills/GM1271_.pdf (\$200,000.00 by June 30, 2017; \$250,000.00 by June 30, 2018; and \$150,000.00 by June 30, 2019). The full amount from the FFY 2016 grant allocation was disbursed by April 17, 2018. Almost 10% of the FFY 2017 grant allocation was disbursed by June 30, 2018.

iv. Technical Assistance Needs of Water Systems

For SFY2018, the SDWB is working to:

- (1) Identify technical assistance needs of water systems (e.g., operation and maintenance manuals, asset management, valve exercise program, water meter evaluation, identify valve replacement, engineering services evaluation, address and solve deficiency, emergency response plan, meter replacement program, etc.).
- (2) Develop and execute an engineering services contract to conduct a preliminary water system asset management plan and to identify those immediate infrastructure needs which may be DWSRF funded. The solicitation for Professional Services for the Engineering Services Contract (SDWB-19-002-ASD) was conducted in late June 2018. There were eight (8) consultants who will be awarded Engineering Services Contracts in SFY 2019. Six (6) of the consultants have been paired with a privately-owned public water system. The SFY 2018 budget was revised on July 24, 2018 from \$290,000.00 to \$21,480.00 and is now estimated to begin disbursing in early 2019. These FFY 2017 awarded funds are to be drawn down by September 28, 2019.

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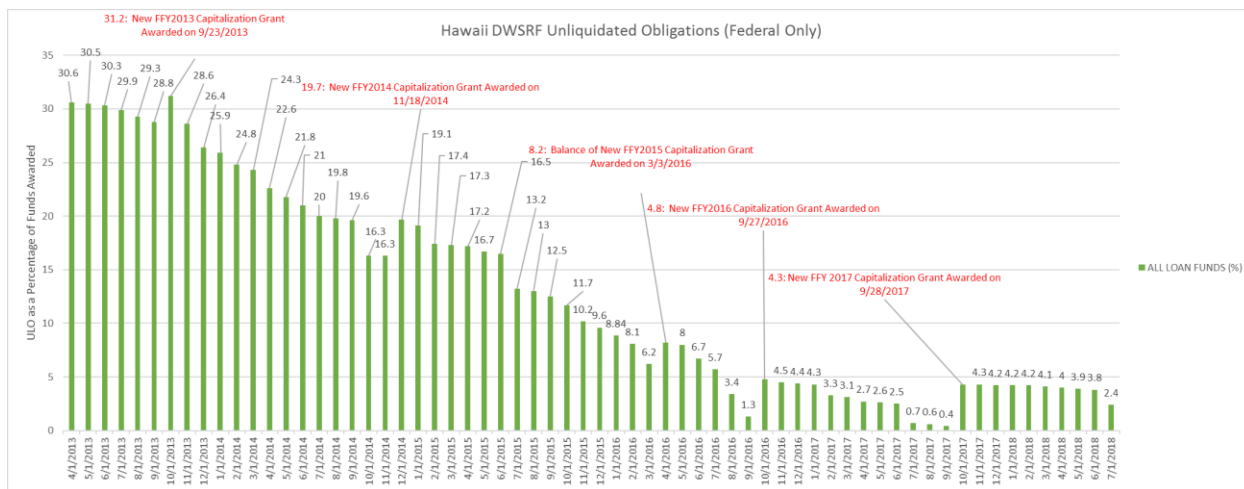
- (3) Develop and execute an additional engineering services contract to conduct water storage tank structural inspections for small water systems. The solicitation for Professional Services for the Storage Tank Inspections (SDWB-19-003-ASD) was conducted in late June 2018. The solicitation was cancelled because three (3) proposals were not received, as required by the Hawaii procurement process. The SDWB is revising the scope of work to repost the solicitation in SFY 2019 and will utilize SFY 2020 funds.

E. GOALS AND ACCOMPLISHMENTS

Section 1452(b) of the Safe Drinking Water Act requires the State to prepare an IUP, identifying the uses of funds in the DWSRF and describing how those uses support the goals of the DWSRF program. The IUP is a requirement in the State's SRF Capitalization Grant Application process to EPA. It is prepared annually and made available for public comment and review. The program finalized its IUP for SFY 2018 in June 2017. A copy of the latest version (Amendment 1, November 2017) is available at http://health.hawaii.gov/sdwb/files/2017/11/SFY2018IUP.Final_.Amend1_.Signed.20171114.pdf.

The following is a summary of the goals and accomplishments for SFY 2018 and a summary of the program achievements throughout the year.

- In SFY 2018, two (2) final loan agreements totaling \$15,960,611.00 were executed; one of which was the DOH's second Pro-Fi loan.
- \$41,416,630.11 of loan disbursements were approved in SFY 2018, according to the LGTS DWSRF – Disbursement Log. A summary of projects with actively disbursing loans in SFY 2018 is attached as Attachment 6.
- As of July 1, 2018, the DOH had a Federal ULO of 2.4%. See the graph below to see the continued great strides made by the DWSRF program.



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- As of March 2018, the DWSRF program fully implemented the FOCUS financial planning model in place of the old cash flow.

1. Long Term Goals

- a. To assist as many water purveyors as possible to attain compliance with State and Federal Drinking Water Regulations through the low interest loan program.

The DWSRF program continues to work with all four (4) counties in Hawaii to provide DWSRF loan funds. The four (4) counties own and manage a majority of the public water systems statewide with small, medium, and large sized systems and the low interest loan funds provide an affordable means of financing numerous projects in different systems. The various projects in the different systems are thus able to provide assistance to many people throughout the State of Hawaii.

The DWSRF program has also been marketing to privately-owned water systems to let them know that the program will be able to provide low interest loans to non-county systems beginning in SFY 2019.

- b. To maintain a perpetual, self-sustaining revolving loan fund program through the strategic use of recycled loan funds, administrative fees, interest earnings, and EPA annual appropriations through capitalization grants to the State each year.

The DWSRF program continues a conservative approach to expenditures in SFY 2018 ensuring the perpetuity of the program. To supplement the administrative demands, the program assesses fees to ensure that the administrative needs are financed in perpetuity. The cash flow modeling is enhanced by the use of the FOCUS financial model, which began full implementation in March 2018.

The program continued to offer a tiered loan rate structure, as shown in the table below, in SFY 2018 to offer competitive rates to our borrowers and to encourage larger loans. These rates were in place until June 30, 2018 and will increase by 0.25% for each tier in SFY 2019.

Total Loan Rate (%)	Interest Rate (%)	Loan Fee (%)	Project Loan Amount (\$)
1.00	0.00	1.00	Over 8 million
1.50	0.50	1.00	4 million to 8 million
2.00	1.00	1.00	Less than 4 million

- c. To promote sustainable infrastructure and energy efficiency using the DWSRF's Green Project Reserve (GPR) by offering additional subsidization to projects that support such initiatives and activities.

Funds made available from the FFY 2017 capitalization grant may, at the discretion of the State, be used for projects to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. Examples of such projects are replacement or rehabilitation of water distribution lines and energy efficient retrofits and

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upgrades to pumps and treatment processes. Projects are evaluated for their contribution to improving water and energy efficiency, the reduction of greenhouse gasses, and sustainability during the proposed projects application review period.

The Hawaii DWSRF program elected to continue providing funds for the GPR in SFY 2018. A total of \$10,960,611.00, or **133 percent** of the FFY 2017 capitalization grant, was allocated to GPR projects in their executed loan agreements.

2. Short Term Goals

- a. Continue implementation of some of the recommendations from the Northbridge Environmental Management Consultants' October 22, 2014 *Hawaii SRF Management Study for the CWSRF and DWSRF Programs* to streamline the Hawaii DWSRF program and increase the program's pace to ensure the efficient and expeditious use of funds.

The DOH continued implementing some of the recommendations from the Management Study in SFY 2018.

- Forward funding
- Accepting digital signatures for loan agreements are at various stages of implementation.

The in-kind expenses for the Management Study in SFY 2018 were \$250,000.00 from the Clean Water State Revolving Fund (CWSRF) program and \$0.00 from the DWSRF program.

- b. Continue modification of the Functional Procedures and the Operating Agreement to reflect and meet the DWSRF requirements and needs.

Most of the Functional Procedures have been updated. The State Environmental Review Process was approved by the EPA on February 20, 2018. Other procedures resulting from the Northbridge Management Study that are in the process of being developed. The Operating Agreement will be updated following the completion of the Functional Procedures updates.

- c. Continue working with Northbridge on the development and implementation of the FOCUS financial planning model to maximize the amount of financial assistance provided while maintaining a healthy working capital balance in the DWSRF program.

The DWSRF program fully implemented the FOCUS financial planning model in March 2018, in place of the old cash flow. The FOCUS financial planning model provides a more comprehensive view of DWSRF funding and allows an easier way to adjust for future planning. The program is working with Northbridge to fix some bugs and ensure data accuracy.

- d. Continue working with Northbridge on the development and implementation of the LGTS to track the required items, which include accounting, management, set-asides, compliance and customer service concerns.

LGTS went into live production on September 2, 2015. The LGTS is actively used daily by the Hawaii SRF program. It is currently being used by staff and management to:

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1. Serve as the primary data repository for all borrower information and loan agreements, loan letters, purchase orders, repayment billings to the Counties, payment requests, repayment receipts
2. Keep track of all project information and status;
3. Record payment requests and obligations;
4. Produce amortization schedules;
5. Generate repayment billings;
6. Record repayments;
7. Record and track grants and state match;
8. Maintain and generate the SRF Programs priority lists;
9. Track project milestones;
10. Maintain project checklists;
11. Generate the following reports: repayment logs, loan balances, disbursement logs, obligation logs, accrued interest and P&I cash flow; and
12. Provide data to the FOCUS financial planning model.

LGTS will continue to be tested and more functions will be fully integrated. The SRF Programs are planning to fully implement LGTS by July 31, 2019. The original goal of having LGTS fully implemented by the end of SFY 2018 had to be postponed because there are still some items that need to be resolved. DOH is working with Northbridge on the issues.

The in-kind expenses for LGTS in SFY 2018 was \$0.00 from the DWSRF program. The DWSRF program is still waiting for the Federal Capitalization Grant Amendment that will change the original \$315,000.00 amount. We are working with EPA to determine the amended amount.

- e. To finalize policies and procedures in the DWSRF program to accommodate funding for privately-owned water systems.

The draft final loan agreement template for privately-owned water system loans was completed and is currently under review by the Attorney General's Office. The DWSRF is currently updating its User Manual to make the program easier for new borrowers to navigate.

The program is planning on providing professional engineering services through an Engineering Services Contract. The DOH posted its solicitation for the Engineering Services Contract in SFY 2018 and is planning on making those services available to small, privately-owned water systems in SFY 2019.

F. COMPLIANCE ISSUES

The Hawaii DWSRF program has complied with the applicable requirements outlined in the Operating Agreement, Chapter II, Implementation, Section D, State Assurances for the DWSRF Program, and Section E, State Requirements for the Capitalization Grant Agreement. The requirements included the following:

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1. Environmental Review - Each DWSRF project has undergone an environmental assessment and review. Environmental assessment documents were prepared by the County Water Departments in accordance with HRS Chapter 343 (Environmental Impact Statements) and Hawaii Administrative Rules, Chapter 11-200, and were submitted to the Office of Environmental Quality Control (OEQC) of the State of Hawaii for review and publication. For exempt projects, DWSRF Exempt Project Certification forms were submitted to the DWSRF program with the qualifying exemption identified.

Federally funded projects (based on equivalency) have also undergone a National Historic Preservation Act (NHPA) Section 106 review, in accordance with 36 CFR 800 (Protection of Historic Properties).

An updated State Environmental Review Process was approved by EPA on February 20, 2018 and DOH has since began implementing the changes. This included an updated checklist, a formal process for the National Historic Preservation Act, Section 106 review, and an online posting of DOH concurrence with project determinations made by the borrower and/or its consultant.

2. Intended Use Plan - The DWSRF IUP for the State of Hawaii SFY 2018 / FFY 2017 Appropriation was finalized in June 2017. A notice for public participation and input was published on June 30, 2017 with an open comment period until July 30, 2017. No public comments were received within the open comment period.

Amendment 1 to the IUP, dated November 2017, was posted to the on the DWSRF webpage. The amendments were to clarify Section I.C. for EPA In-Kind Services; clarify Section II – DWSRF Long-term Goals; update Section IV.C. – Small Systems Technical Assistance (2% Set-Aside); update Section IV.D. – Local Assistance and Other State Programs (15% Set-Aside); update Tables 1 and 2; revise Appendix C – Federal Capitalization Grant Payments and Disbursements Schedule for FFYs 2018 and 2019; and update Appendix D – Notice of Public Participation and Input.

3. Other Federal Requirements - The County Water Departments certify for each of their DWSRF projects that they are following American Iron and Steel (AIS), Davis-Bacon, and all the federal cross-cutter rules and regulations. Each project must include the Federal Boiler Plates in the project specifications used for bidding.

G. DWSRF NATIONAL STRATEGIC PLAN, LOAN RECIPIENT, PROJECTS & TYPES OF ASSISTANCE

U.S. Environmental Protection Agency, Drinking Water State Revolving Fund (DWSRF) Strategic Plan Goals and Objectives².

Strategic Plan Goal 2: Protecting America's Waters - Protect and restore waters to ensure that drinking water is safe and sustainably managed, and that aquatic ecosystems sustain fish, plants, wildlife, and other biota, as well as economic, recreational, and subsistence activities.

² FY 2014-2018 EPA Strategic Plan, dated April 10, 2014; page 63; <https://www.epa.gov/planandbudget/strategicplan>.

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Strategic Plan Objective 2.1: Protect Human Health – Achieve and maintain standards and guidelines protective of human health in drinking water supplies, fish, shellfish, and recreational waters, and protect and sustainably manage drinking water resources.

Strategic Measure: Water Safe to Drink – By 2018, 92 percent of community water systems will provide drinking water that meets all applicable health-based drinking water standards through approaches including effective treatment and source water protection. (2005 baseline: 89 percent. FY 2013 universe: 51,535 community water systems. Status as of FY 2013: 91.4 percent.)

Hawaii's Contribution and Support of the National EPA DWSRF Strategic Plan:

The Hawaii DWSRF program supports the above mentioned National USEPA DWSRF Strategic Plan Goal 2 (Protecting America's Waters), Objective 2.1 (Protect Human Health), and Strategic Measure (Water Safe to Drink). Specifically, Hawaii has established and is managing the revolving loan fund to make low-cost loans to water systems to finance the cost of infrastructure projects to achieve or maintain compliance with Safe Drinking Water Act requirements. Hawaii DWSRF activities support USEPA Program Reporting Code (PRC) 201B81E.

Every summer, Hawaii and USEPA negotiate Hawaii's Strategic Plan commitments for the SFY starting July 1st. Hawaii submitted its Strategic Plan commitments for the Federal Fiscal Year starting on October 1st.

All DWSRF loans have assisted public water systems to meet the federal and state drinking water compliance requirements. Details of Hawaii's DWSRF activities supporting the National USEPA Strategic Plan will be submitted to EPA as part of the DWNIMS data collection effort. Last year's plan is available at: http://water.epa.gov/resource_performance/planning/.

FINANCIAL SECTION

The following is a summary of the financial activities of the program for the state fiscal year ended June 30, 2018. The DOH considers the DWTRLF to be a special revolving fund. The fund was established to receive proceeds from specific revenue sources such as Federal Capitalization Grants, State Capital Improvement Project (CIP) Appropriations for State Match, loan repayments, and interest earnings from investments and fees.

A. INTERNAL CONTROLS

The DWTRLF program is responsible for establishing and maintaining a system of internal accounting controls to ensure compliance with applicable laws and regulations related to federal and state financial assistance programs. The objective of an internal control system is to provide the program with reasonable, but not absolute, assurances that assets are safeguarded against loss from unauthorized use or disposition. It also ensures that transactions are executed and recorded with proper authorization to permit preparation of financial statements in accordance with generally accepted accounting principles.

Based on annual Performance Evaluation Reviews by EPA and annual financial audits by independent auditors, we believe that the DWTRLF program's internal controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

B. ACCOMPLISHMENTS OF THE PROGRAM

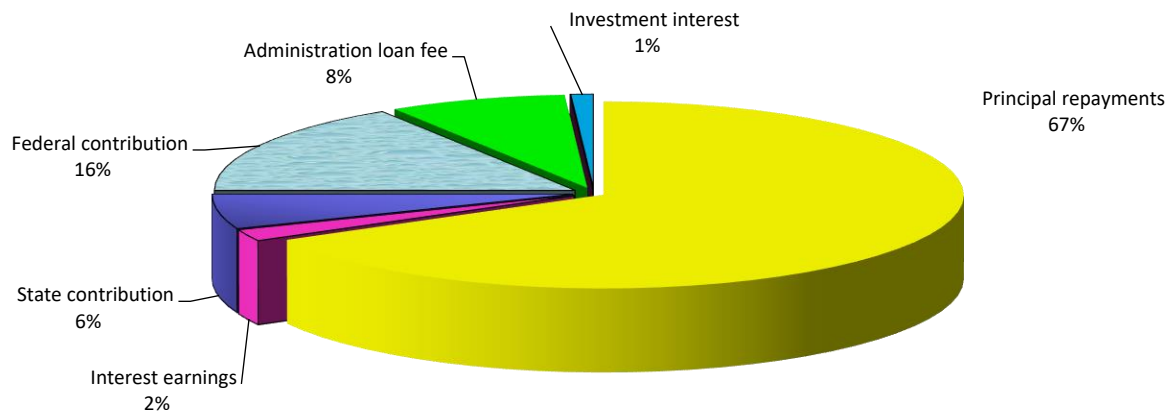
1. Sources of Funds

Since the program's inception, the DOH has received a total of \$200,647,058.00³ in federal capitalization grants. Of this amount, \$26,767,917.42 was set aside to support other drinking water program initiatives and administration of the loan program with the remaining \$165,638,140.58 earmarked for DWSRF loan funds.

The Graph below illustrates the percentage breakdown of sources of cash for the SRF program by category received for the SFY 2017.

³ Includes \$19.5 million from ARRA and does not include withholdings by EPA of a total of \$1,452,500.00 which consists of \$1,345,000.00 for the 2014-2018 Northbridge work assignments, \$6,000.00 for the 2016 Cadmus survey, and \$101,500.00 of other in-kind expenses in 2000, 2001, and 2005. The total listed matches the amount listed in the Cumulative through 6/30/2018 column of Table 1 of the SFY2018 IUP at http://health.hawaii.gov/sdwb/files/2017/11/SFY2018IUP.Final_.Amend1_.Signed.20171114.pdf. The total including ARRA and the amounts withheld by EPA is \$193,858,558.00.

**Source of Cash Receipts
By Category for SFY 2018**



2. State Match

Pursuant to Act 49/SLH17, the Hawaii State Legislature appropriated monies from general obligation bond funds for the required 20% state match for the FFY 2017 EPA SRF Capitalization Grant. The state match was transferred into the DWTRLF account in December 2017.

Hawaii State law prohibits the program from using State CIP funds (match funds) for administrative purposes. In order to comply with EPA's disbursement requirement, the program obligates all of its state match funds to loan projects.

3. Executed Loan Agreements/Binding Commitments:

As of June 30, 2018, the DOH committed \$151,637,773.58 federal capitalization grant funds and \$36,519,912.00 state match funds to DWSRF projects. These funds benefit communities of all sizes throughout the State of Hawaii.

The total available for loans since inception was \$316,473,479.74. The program committed \$329,265,677.62 or 104%, \$12,792,197.88 more funds than available.

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4. Automated Standard Application for Payments (ASAP):

The program drew \$4,528,884.22 of its capitalization grant funds from the ASAP system during SFY 2018. Of this amount, \$2,538,800.47 was used for DWSRF loans and \$1,990,083.75 for DWSRF set-aside operations.

5. Loan Repayments and Investment Interest:

Under the DWSRF, the program established several accounts or activity codes to track the program's revenue sources. These funds are legally restricted for use to fund expenditures for drinking water infrastructure projects, eligible costs for program set-aside activities under the Safe Drinking Water Act, and administrative costs relating to the operation and maintenance of the DWSRF Program.

Activity Code	Revenue Source	SFY 2018 Amount Received (\$)
422	Principal from repayments	18,422,793.70
423	Interest from repayments	479,905.09
424	Investment interest	332,545.95

C. PROGRAM AND SET-ASIDE ACTIVITIES

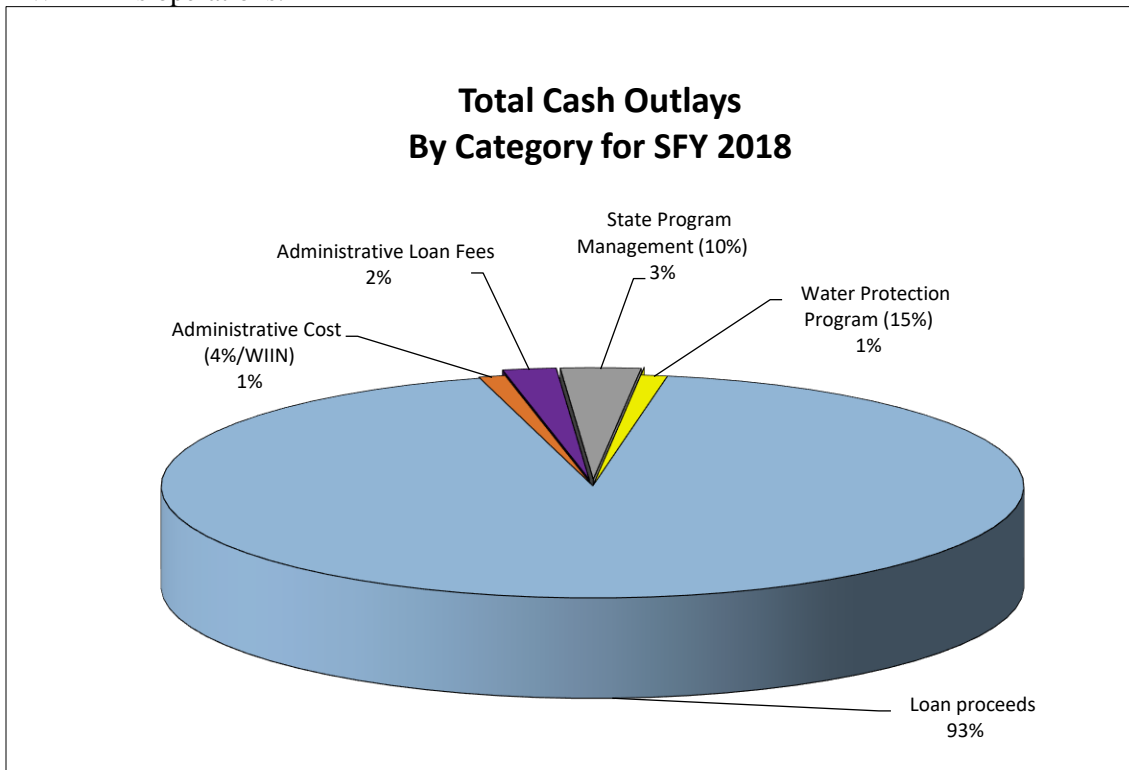
Highlights of the program's activities are as follows:

To administer the DWSRF program and its related drinking water programs, the program spent \$44,542,873.29. This consisted of the following program expenses:

Activity Code	Program	SFY 2018 Amount Expended (\$)
420, 421, 422, 423	Loan Disbursements	41,416,630.11
425, 426, 430	Administrative Costs	1,385,672.48
427	State Program Management (10%)	1,102,579.48
428	Small Systems Technical Assistance (2%)	21,200.00
435	Operator Certification (10%)	11,567.99
436	Wellhead Protection Program (15%)	257,638.56
437	Technical or Financial Assistance to PWSs (15%)	347,584.67
Total Program Expenditures		44,542,873.29

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The Graph below shows the significance of loan proceeds in relation to all costs associated with the DWTRLF's operations.



D. CREDIT RISKS OF THE DWTRLF LOANS

The SRF program requires that every applicant pledge a dedicated source of revenue to repay the loan. Dedicated sources of revenue include a pledge of the county's full faith credit and/or a pledge of general obligation bonds or a dedicated revenue source.

The following table contains specific information regarding the credit worthiness of our four (4) DWTRLF loan recipients. The table displays the credit rating categories for these recipients. The General Obligation (G.O.) Bond credit agencies, Moody's Investors Service and Fitch Ratings, gave every Hawaii Board of Water Supply or Water Board a High Quality rating.

In summary, the DOH feels that the DWTRLF loan portfolio carries a high degree of solvency.

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Recipients	Committed Amount (\$)	Moody's/Fitch Bond Rating	Percentage of DWSRF Loan Portfolio
City and County of Honolulu, Board of Water Supply	135,853,118.97	Aa1/AA+	41%
County of Hawaii, Water Board	67,707,012.92	Aa2/AA+	21%
County of Kauai, Board of Water Supply	40,511,143.18	Aa2/AA	13%
County of Maui, Board of Water Supply	85,194,402.55	Aa1/AA+	26%
Totals	329,265,677.62		100%

E. OTHER INFORMATION

This report was prepared in accordance with the Generally Accepted Accounting Principles (GAAP) and Reporting Requirements requested by EPA.

Independent Audit: The accounting firm of KMH LLP was selected by the DOH to perform a financial audit of the DWSRF Program's activities for SFY 2018.

The previous audit was performed and completed by N&K CPAs, Inc. for SFY 2017. The auditor's report for the SFY 2017 DWSRF financial statements was published on November 30, 2017 and states: "In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2017, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America."

The KMH LLP auditor's report for the SFY 2018 DWSRF financial statements was published on November 30, 2018 and on page 5 states, "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the DWTRLF, as of June 30, 2018, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America."

Program information: For further information regarding this report, please contact SDWB at: (808) 586-4258 or Water Revolving Fund Staff at: (808) 586-4294.

LIST OF ATTACHMENTS

ATTACHMENT 1:	SUMMARY OF THE DRINKING WATER TREATMENT REVOLVING LOAN FUND
ATTACHMENT 2:	STATEMENT OF NET POSITION
ATTACHMENT 3:	STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION
ATTACHMENT 4:	STATEMENT OF CASH FLOWS
ATTACHMENT 5:	NOTES TO FINANCIAL STATEMENTS
ATTACHMENT 6:	SUMMARY OF ACTIVE PROJECTS IN SFY 2018

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ATTACHMENT 1: SUMMARY OF THE DRINKING WATER TREATMENT REVOLVING LOAN FUND

Actual and Planned Binding Commitments

No.	Binding Commitment Date	Project Description (Project Name - Based on the Final Loan Agreement)	Rate	Loan Amount
1	11/15/1999	213-0001 Kamole Water Treatment Plant	1.55%	7,840,087.00
2	7/15/2001	130-0001 Waimea Treatment Plant Upgrades-Phase II [Interim 11/15/00]	1.37%	739,210.00
3	7/15/2001	410-0001 Damage Repairs to Kokolau Tunnel [Interim 11/15/00]	1.37%	1,663,201.02
4	10/15/2001	101-0001 Saddle Road Well "A" [Interim 11/15/00]	1.37%	1,610,048.59
5	4/15/2002	133-0001 Kukuihaele Well "A" (Replace Waiulili Spring) [Interim 7/15/01]	1.01%	334,240.00
6	4/15/2002	139-0001 Makapala Well (Replace Murphy Tunnel) [Interim 7/15/01]	1.01%	1,292,914.85
7	4/15/2002	109-0001 Pahala Well "B" (Replace Alii Tunnel) [Interim 7/15/01]	1.01%	2,326,821.30
8	4/15/2002	107-0001 Kaieie Mauka (Replace Kaieie & Papaikou Springs) [Interim 7/15/01]	1.01%	2,227,682.96
9	4/15/2002	406-0001 Kekaha Well (Kapilimao Well) [Interim 7/15/01]	1.01%	862,882.74
10	3/15/2004	413-0002 Wailua Homesteads Well No. 3 [Interim 7/15/03]	0.54%	397,736.50
11	7/15/2003	404-0001 Rehabilitation of 27" Steel Pipe, Hanapepe-Ellele Water System [Interim 5/15/02]	0.99%	691,134.00
12	7/15/2003	404-0002 Replace Pipeline at Hanapepe River Crossing and Control of Slope Failure at Hanapepe Well #3 [Interim 5/15/02]	0.99%	1,243,976.74
13	1/15/2005	410-0005 Rehabilitate Lihue Steel Tanks 1 & 2 [Interim 7/15/03]	0.46%	1,243,017.00
14	1/15/2005	413-0005 Ornellas 0.2 MG Tank Refurbish [Interim 7/15/03]	0.58%	809,398.00
15	12/15/2004	331-0002 Waimanalo Well III [Interim 3/15/04]	0.10%	2,147,710.20
16	8/15/2005	335-0004 Pailani Street Water System Improvements [Interim 8/15/05]	0.00%	2,790,658.33
17	8/15/2005	413-0006 16 inch Waterline Replacement along Kuhio Highway, Leho Drive to North Papaloa Road, Wailua, Kauai, Hawaii [Interim 1/15/05]	0.16%	2,305,093.02
18	9/15/2005	333-0001 California Avenue Water System Improvements, Parts II and III [Interim 4/15/05]	0.31%	3,788,303.68
19	9/15/2005	335-0003 Ewa Shaft Granular Activated Carbon (GAC) Treatment Facility [Interim 3/15/04]	0.10%	12,096,983.25
20	11/15/2005	335-0002 Kunia Wells II-Nitrate Treatment Facility [Interim 3/15/04]	0.10%	395,054.20
21	1/15/2007	408-0002 Poipu Road 16 inch Main Replacement [Interim 1/15/05]	0.16%	5,158,885.83
22	2/15/2007	105-0001 Honomu Well "A" (Replace Akaka Falls Spring) [Interim 12/15/03]	0.41%	3,968,080.00
23	3/15/2007	213-0003 Kamole Weir Water Treatment Facility Clear Well Replacement [Interim 1/15/05]	0.15%	9,704,849.00
24	3/15/2008	331-0018 Pearl City Water System Improvements [Interim 5/15/07]	0.01%	1,255,435.00
25	3/15/2008	331-0024 Alewa Water System Improvements [Interim 5/15/07]	0.01%	2,666,036.00
26	3/15/2008	331-0025 Liliha Water System Improvements, Phase B [Interim 5/15/07]	0.01%	1,934,183.88
27	2/15/2009	214-0009 Napili Well "A" Site Improvements [2/15/09]	0.37%	1,629,992.00
28	3/15/2009	400-0001 Stable 1.0 MG Tank & Connecting Waterline [Interim 1/15/08]	0.26%	7,274,997.83
29	4/15/2009	154-0001 Hakalau Spring Improvement [4/15/09]	0.62%	606,167.00
30	5/15/2009	331-0031 Oahu Ave and Huelani Drive 8-inch Mains [Interim 5/15/08]	0.36%	1,324,452.00
31	8/15/2009	406-0005 Kaumuali'i Highway 12-inch Main Replacement Elepaio Road to Huakai Road, Job No. 05-04, KW-27, Kekaha-Waimea, Kaua'i, Hawaii [Interim 8/15/09]	0.32%	3,989,537.33
32	8/15/2009	434-0003 Waha, Wawae, and Niho Roads Main Replacement, Job No. 05-07, K-07, LO-13, at Kalaheo, Kaua'i, Hawaii [Interim 8/15/09]	0.32%	1,936,018.00
33	1/15/2010	406-0003 Kapilimao 0.5 MG Tank [Interim 8/15/08]	0.42%	3,793,779.17
34	8/15/2010	133-0002 Kapulena Well Development Phase 1 (Interim 11/15/09)	0.00%	1,000,154.00
35	8/15/2010	130-0004 Waimea Water Treatment Plant Sludge Drying Beds (Interim 8/15/10)	0.12%	3,458,753.00
36	4/15/2011	213-0006 Makawao Waterline Improvements- Ai Street, Kehau, Mole, & Malu Place (Interim 4/15/11)	0.00%	674,409.00
37	8/15/2011	213-0008 Kamole Water Treatment Plant High Lift Pumps (Interim 8/15/11)	0.35%	1,794,000.00
38	8/15/2011	247-0005 Upper Omaopio Road Tank Replacement (Interim 8/15/11)	0.00%	1,082,117.00
39	8/15/2011	247-0006 Middle and Lower Omaopio Road Tanks Replacements (Interim 8/15/11)	0.35%	576,043.00
40	11/15/2011	212-0007 Lower Paia Water Tank Replacement [Interim 11/15/11]	0.35%	1,012,994.00
41	4/15/2012	212-0010 Uluniu Road and Ewa Place Waterline Replacement (Interim 11/15/11)	1.00%	850,000.00
42	8/15/2012	106-0001 Kulaimano Production Well and Supporting Facilities (Interim 8/15/11)	1.00%	1,239,445.80
43	8/15/2012	217-0005 Wakiu Well Replacement (Interim 11/15/11)	0.50%	2,248,485.65
44	8/15/2012	400-0004 Job No. PLH-03, Kahili Horizontal Directional Drilled Well (Interim 2/15/12)	1.00%	678,402.00

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Actual and Planned Binding Commitments (continued)

No.	Binding Commitment Date	Project Description (Project Name - Based on the Final Loan Agreement)	Rate	Loan Amount
45	12/15/2012	129-0002 Kynnersley #1- 0.3 MG Reservoir Replacement (Interim 11-15-11)	1.00%	2,178,762.00
46	4/15/2013	213-0009 Kaupakalua Road Waterline Improvements Phase 1 (Interim 2/15/12)	1.00%	846,047.00
47	4/15/2013	331-0038 Kealakaha Dr., Pooholua Dr., and Waipao Pl 8-in Mains (Commitment 10/4/12)	1.00%	1,064,405.29
48	4/15/2013	331-0049 Kona Street 8-inch Main (Commitment 10/4/12)	0.50%	2,512,721.30
49	4/15/2013	331-0057 Ward Avenue 12-inch and 8-inch Water Mains (Commitment 10/4/12)	1.00%	2,296,015.30
50	4/15/2013	413-0008 Job No. 02-15, WK28, Wailua Houselots Main Replacement, Phase I (Interim 2/15/12)	0.50%	4,463,084.00
51	5/15/2013	215-0003 Waikamoi Flume Repair/Replacement (Commitment 11/9/12)	0.00%	7,963,427.38
52	8/15/2013	215-0004 Olinda Water Treatment Plant - Relining of the 8.5 MG Sedimentation Basin (Interim 11/15/11)	1.00%	1,283,418.00
53	10/15/2013	247-0004 Piholo Water Treatment Plant Improvements - Organic Carbon Reduction (Interim 2/15/12)	0.50%	4,283,817.10
54	1/15/2014	213-0014 Paia-Kuau Water System Improvements (Commitment 4/22/13)	1.00%	693,370.03
55	2/15/2014	212-0011 Maui Meadows Booster Pump Station #18 Improvements (Commitment 4/22/13)	1.00%	1,100,000.00
56	4/15/2014	212-0009 Wailuku Well Development (Interim 2/15/12)	1.00%	2,000,000.00
57	5/15/2014	331-0042 Foster Village Water System Improvements, Part III (Commitment 6/24/13)	1.00%	1,031,787.00
58	5/15/2014	331-0052 Mapunapuna Water System Improvements, Part I (Commitment 6/24/13)	0.50%	802,769.35
59	5/15/2014	331-0062 Kamehameha Highway 16-Inch and 8-Inch Mains (Hee'a) (Commitment 6/24/13)	0.50%	6,253,645.60
60	5/15/2014	331-0063 Kapiolani Boulevard 12-Inch Main (Commitment 6/24/13)	0.50%	5,472,724.00
61	5/15/2014	331-0059 Woodlawn Drive 8-Inch Main (Commitment 6/24/13)	1.00%	3,397,180.55
62	10/15/2014	HBWS-0002 Honolulu BWS Loan Refinance 1 (No Commitment)	0.00%	26,400,910.01
63	10/15/2014	331-0047 Kalihi Water System Improvements, Part III (Commitment 4/29/14)	0.50%	5,068,079.00
64	11/15/2014	HBWS-0001 Honolulu BWS Water System Improvements 1 (Commitment 9/15/14)	0.00%	9,579,895.00
65	12/15/2014	400-0011 PLH-39, Lihue Baseyard Improvements for the Department of Water (No Commitment)	0.50%	4,000,000.00
66	1/15/2015	213-0015 Haliimaile Tank Replacement (Commit 8/27/13)	1.00%	674,167.39
67	4/15/2015	215-0010 Kula 200 #1 Tank Replacement (Commit 8/27/13)	1.00%	749,330.00
68	11/15/2015	102-0001 Laupahoehoe 0.5 MG Reservoir (Commit 9/15/14)	0.50%	4,158,170.00
69	11/15/2015	129-0001 Halaula Well Development Phase 1 (No Commit Issued)	1.00%	823,420.00
70	11/15/2015	130-0003 Waimea WTP Microfiltration (Commit 6/1/15)	0.00%	12,896,000.00
71	11/15/2015	161-0002 Ahualoa-Honokaa Transmission Waterline (Commit 8/30/13)	1.00%	3,200,000.00
72	12/15/2015	HBWS-0003 Honolulu BWS Water System Improvements 2 (Commit 7/6/15)	0.00%	11,652,948.03
73	3/15/2016	133-0004 Kapulena Well Development Phase 2 (Production Well and 0.3 MG Reservoir) (Commit 5/28/14)	0.50%	4,388,782.00
74	3/15/2016	212-0018 Wailuku Heights Tank 30 Booster Replacement (Commit 4/15/15)	1.00%	1,804,849.00
75	3/15/2016	215-0009 Phase 6 Booster Pump Upgrades (Commit 8/27/13)	0.50%	4,000,000.00
76	3/15/2016	233-0002 Kualapuu MCC Upgrades (Commit 4/15/15)	1.00%	500,000.00
77	3/15/2016	247-0008 Omaopio 2.1 MG Tank Replacement (Commit 4/15/15)	0.50%	4,183,000.00
78	3/15/2016	MDWS-0001 Source Generator Installation - 4 Sites (Commit 4/15/15)	1.00%	1,200,000.00
79	5/15/2016	112-0004 Olaa No. 6 Production Well and 1.0 MG Reservoir (No Commit Issued)	0.50%	6,829,188.42
80	11/15/2016	HBWS-PF17 Honolulu BWS Pro-Fi SFY 2017 (Commit 5/23/16)	0.50%	5,000,000.00
81	11/15/2016	101-0003 Pihonua-Kukuau Reservoir and Transmission Improvements (Commit 5/25/16)	0.00%	9,429,173.00
82	1/15/2017	212-0015 Iao Surface Water Treatment Plants Upgrades (Commit 3/22/16)	0.00%	21,500,000.00
83	2/15/2017	331-0068 Energy Savings Performance Contracting-BWS Facilities (Commit 5/23/16)	0.00%	21,921,222.00
84	1/15/2018	HDWS-PF18 Hawaii DWS Pro-Fi SFY 2018 (No Commit Issued)	0.25%	5,000,000.00
TOTAL FINAL PROJECTS				<u><u>\$ 319,265,677.62</u></u>

Planned (Future) Binding Commitments

No.	Date	Project Description (Project Name - Based on the Commitment Letter)	Rate	Loan Amount
1	5/10/2017	C MDWS-0002 Maui DWS Combo Loan 1	0.75%	5,000,000.00
2	5/1/2018	C HBWS-PF19 Honolulu BWS Pro-Fi SFY 2019	0.75%	5,000,000.00
TOTAL PLANNED (FUTURE) COMMITMENTS				<u><u>\$ 10,000,000.00</u></u>
TOTAL FINAL & PLANNED (FUTURE) PROJECTS				<u><u>\$ 329,265,677.62</u></u>

SFY 2018 DWTRLF ANNUAL REPORT

ATTACHMENT 2: STATEMENT OF NET POSITION

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF NET POSITION

June 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash and cash equivalents in State Treasury	\$ 25,841,975.63
Accrued Interest	107,508.87
Accrued Interest from Investment	-
Accrued Loan Fees	640,866.24
Due from state treasury	205,031.09
Due from federal government	365,510.04
Accounts Receivable	1,310.72
Current maturities of loans receivable	<u>9,258,793.31</u>
Total Current Assets	36,420,995.90
Loans Receivable, net of current maturities	168,779,224.51
Capital Assets	
Capital Assets	2,509,110.02
Less: Accumulated Depreciation	<u>(2,078,185.47)</u>
Total Capital Assets	<u>430,924.55</u>
Total Assets	\$ 205,631,144.96
Deferred outflows of resources related to pensions	\$ 752,067.73
Deferred outflows of resources related to OPEB	<u>\$ 210,848.61</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 206,594,061.30</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current Liabilities	
Payroll Payable	\$ 99,149.73
Accounts Payable	63,523.56
Indirect Payable	-
Due to state treasury	1,371.56
Accrued Vacation, current portion	<u>57,794.05</u>
Total Current Liabilities	221,838.90
Accrued Vacation, net of current portion	152,331.06
Net pension liability	2,430,136.97
Net OPEB liability	<u>2,784,836.18</u>
Total Liabilities	5,589,143.11
Deferred inflows of resources related to pensions	485,012.50
Deferred inflows of resources related to OPEB	3,986.27
Net Position	
Net Investment in Capital Assets	430,924.55
Restricted	200,084,994.87
Unrestricted	<u>-</u>
Total Net Position	<u>200,515,919.42</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 206,594,061.30</u>

The accompanying notes are an integral part of this statement.

SFY 2018 DWTRLF ANNUAL REPORT

ATTACHMENT 3: STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

For the Year Ended June 30, 2018

OPERATING REVENUES

Interest earnings from Loans	\$ 471,521.88
Administration loan fee earnings	<u>2,359,356.48</u>
Total Operating Revenues	2,830,878.36

OPERATING EXPENSES BY PROGRAM ACTIVITIES

Administrative Cost - 4% set-aside	80,968.93
Admin. Technical Assistance - 4% set-aside	-
Administrative Cost - WIIN set-aside	420,972.56
State Program Management - 10% set-aside	1,048,269.28
Source Water Protection - 10% set-aside	-
Capacity Development - 10% set-aside	-
Operator Certification - 10% set-aside	11,860.27
Small Systems Technical Assistance - 2% set-aside	21,200.00
Water Protection Program - 15% set-aside	-
Wellhead Protection Program - 15% set-aside	338,871.78
Technical or Financial Assistance - 15% set-aside	320,129.07
Admin Loan Fee - Program	842,815.13
Admin Loan Fee - Non Program	284,489.60
Principal forgiveness for SRF	<u>1,808,542.45</u>
Total Operating Expenses	<u>5,178,119.07</u>

OPERATING LOSS (2,347,240.71)

NON-OPERATING REVENUES

Federal contribution	4,722,027.90
State matching contribution	1,663,000.00
Interest earnings (loss) from Investment	342,569.00
Non-imposed fringe	<u>13,589.04</u>
Total Non-operating revenues and expenses	<u>6,741,185.94</u>

CHANGE IN NET POSITION 4,393,945.23

NET POSITION

Beginning of year, as previously reported	197,732,912.62
Restatement due to change in accounting principle	<u>(1,610,938.43)</u>
Beginning of year, as restated	<u>196,121,974.19</u>
End of year	<u>\$ 200,515,919.42</u>

The accompanying notes are an integral part of this statement.

SFY 2018 DWTRLF ANNUAL REPORT

ATTACHMENT 4: STATEMENT OF CASH FLOWS

State of Hawaii	
Drinking Water Treatment Revolving Loan Fund	
STATEMENT OF CASH FLOWS	
Year Ended June 30, 2018	
Cash flows from operating activities:	
Personnel costs	\$ (1,811,066.13)
Payments to vendors	(1,314,307.05)
Net cash flows used by operating activities	(3,125,373.18)
Cash flows from noncapital financing activities:	6,191,884.22
Net cash flows provided by noncapital financing activities	6,191,884.22
Cash flows from capital and related financing activities:	
Purchase of equipment	-
Net cash flows used by capital and related financing activities	-
Cash flows from investing activities:	
Interest income from loans	479,905.09
Administrative loan fees	2,285,067.46
Principal repayments on loans	18,422,793.70
Disbursement of loan proceeds	(41,416,630.11)
Interest from investments	332,545.95
Net cash flows used by investing activities	(19,896,317.91)
NET DECREASE IN CASH	(16,829,806.87)
Cash Balance at July 1, 2017	42,671,782.50
Cash Balance at June 30, 2018	\$ 25,841,975.63
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (2,347,240.71)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	201,160.70
Principal forgiveness for SRF	1,808,542.45
Interest income from loans	(471,521.88)
Administrative loan fees	(2,359,356.48)
IPA expenses	80,968.93
Non-imposed fringe	13,589.04
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
Due from State Treasury	-
Accounts Receivable	2,156.51
Accrued salaries and other administrative costs	(249,951.45)
Net deferred outflows/inflows of resources	244,101.95
Net pension liability	(86,542.11)
Net OPEB liability	38,719.87
Net cash used by operating activities	\$ (3,125,373.18)

The accompanying notes are an integral part of this statement.

SFY 2018 DWTRLF ANNUAL REPORT

ATTACHMENT 5: NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

State of Hawaii Drinking Water Treatment Revolving Loan Fund

NOTE A - ESTABLISHMENT AND PURPOSE OF THE DWTRLF

The Safe Drinking Water Act Amendments (SDWA) of 1996 (the Act) authorized the Environmental Protection Agency (EPA) to make capitalization grants to the states for the purpose of providing loans and other types of financial assistance to public water supply systems for drinking water infrastructure.

The Act also authorized the states to set aside funding for prevention programs and administration of the Fund, provided that the amount of funding did not exceed thirty-one percent (31%) of the annual capitalization grant as follows:

1. Up to fifteen percent (15%) may be used to provide local assistance and other state programs.
2. Up to four percent (4%) may be used to cover the costs of program administration.
3. Up to ten percent (10%) may be used for Public Water System Supervision (PWSS) program activities and other initiatives of the SDWA.
4. Finally, up to two percent (2%) may be used to support small systems technical assistance activities.

To receive the federal capitalization grants, the 1997 State of Hawaii Legislature established the Drinking Water Treatment Revolving Loan Fund (DWTRLF). The DWTRLF is intended to provide loans in perpetuity to public drinking water systems for construction of drinking water treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years. Prior to July 1, 2015, the first repayment of principal and interest occurs no later than one year after the notice to proceed for construction or the final agreement date, whichever is later. Beginning July 1, 2015, the first repayment of principal and interest occurs no later than one year after the final loan disbursement, one year after the project completion date or three years after the final agreement date, whichever is earliest. The Fund is administered by the Safe Drinking Water Branch, Environmental Management Division of the Department of Health (DOH), State of Hawaii.

NOTE B - ACCOUNTING POLICIES

1. Financial Statement Presentation

The financial statements are intended to present the financial position and results of operations of only that portion of the funds of the DOH, State of Hawaii that is attributable to the transactions of the DWTRLF.

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The accompanying financial statements of the DWTRLF have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB).

2. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus (i.e., recognizing all revenues earned during the year) and the accrual basis of accounting. Revenues are reported when earned and expenses are reported when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from services or goods in connection with a proprietary fund's principal ongoing operation. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the DWTRLF are interest income and administrative loan fees on loans made to county governments. Federal grants, state matching funds, and interest income from investments are reported as non-operating income.

Net position are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally, it is management's policy to use restricted resources first, then unrestricted resources as they are needed.

3. Loans Receivable

Transactions relating to loans were previously considered operating activities on the statement of cash flows. Effective SFY 2015, all outflows and inflows of loan activity (including interest) will be classified as investing activities.

4. Capital Assets

Capital assets, which include equipment, are reported in financial statements. Management capitalizes equipment if the cost is in excess of \$5,000 and the useful life exceeds one year.

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Purchased capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Depreciation expense is recorded in the financial statements. The straight-line method is utilized over the assets' estimated useful life. Generally, the useful life used for equipment is three to seven years.

5. Administration Costs

The accompanying financial statements do not reflect certain administration costs incurred which are paid for by other sources of funding from the DOH. These costs include the DOH and state's overhead which the DOH does not assess to the SRF.

6. Fund Accounts

The DWTRLF consists of the State Revolving Fund (SRF) and non-SRF activity. The SRF activity consists exclusively of the state match, federal capitalization grant loans, principal loan repayments, and interest from loans and investments. Non-SRF activity consists of administration loan fees and federal set aside funds.

7. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Accrued Vacation

Employees earn vacation leave at a rate of 14 hours for each month of service. Vacation leave can be accumulated up to a maximum of 720 hours at the end of the calendar year and is convertible to pay upon termination of service.

Included in accrued vacation is compensatory time off (CTO). Employees may elect to take CTO in lieu of cash payment for overtime worked. CTO can be accumulated up to 240 hours.

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

9. Accumulated Sick Leave

Sick leave accumulates at a rate of 14 hours for each month of service without limit, but may be taken only in the event of an illness and is not convertible to pay upon termination of employment. However, an employee who leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System (ERS). At June 30, 2018, accumulated sick leave was approximately \$568,700.

10. Post-employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at their fair value.

11. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

SFY 2018 DWTRLF ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

13. Indirect Cost

The state charges the DWTRLF federal grants an indirect cost on direct salaries and wages, including all fringe benefits. It is determined based on a negotiated Federal indirect rate.

14. Due from State Treasury

Due from State Treasury includes amounts due from other State departments and agencies, which were not received at the end of the fiscal year. This includes vacation transfers for employees from other government jurisdictions, or between positions within the same jurisdiction which are financed by different "Means of Finance."

15. Newly Issued Accounting Pronouncements

During fiscal year 2018, the DWTRLF implemented GASB Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Statement replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The Statement required the liability of employers for defined benefit OPEB to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the OPEB plan's fiduciary net position.

Adoption of GASB 75 has resulted in the restatement of the DWTRLF's fiscal year 2017 financial statements to reflect the reporting of a net OPEB liability and deferred outflows of resources related to OPEB in accordance with the provisions of GASB 75. As of July 1, 2017, the DWTRLF recorded a net OPEB liability and deferred outflows of resources related to OPEB of \$2,746,116 and \$158,602, respectively. The impact of the restatement to beginning net position is as follows:

	2017 (As Previously Reports)	Restatement Adjustment	2017 (As Restated)
Net position at beginning of year	<u>\$197,732,912.62</u>	<u>\$(1,610,938.43)</u>	<u>\$196,121,974.19</u>

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

NOTE C - CASH AND CASH EQUIVALENTS

All monies of the DWTRLF are deposited into the state treasury. The state Director of Finance is responsible for the safekeeping of cash in the state treasury in accordance with state laws. The Director of Finance may invest any monies of the state, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the state.

Effective August 1, 1999, cash is pooled with funds from other state agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool System. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account. The state requires that the depository banks pledge, as collateral, government securities held in the name of the state for deposits not covered by federal deposit insurance.

Investments are categorized to give an indication of the level of risk assumed by the DWTRLF. Category 1 includes investments that are insured or for repurchase agreements, collateralized by underlying securities that are so held. Category 2 includes uninsured and unregistered investments for which the broker-dealer in the DWTRLF's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker-dealer, but not in the DWTRLF's name.

Since all of the DWTRLF's cash was included in the state cash pool, the category of risk is not determinable at the Fund level.

SFY 2018 DWTRLF ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

NOTE D - LOANS RECEIVABLE

At June 30, 2018, the DWTRLF had outstanding loan receivables with the following government entities:

Eight loans with the City & County of Honolulu, Board of Water Supply; due in semiannual payments, including interest ranging from 0.00% to 1.00%, commencing not later than one year after project completion, notice to proceed, final loan disbursement or three years after loan agreement date. Final payment is due not later than twenty years after project completion. \$66,316,993.68

Nineteen loans with the County of Hawaii, Water Board; due in semiannual payments, including interest ranging from 0.00% to 1.37%, commencing not later than one year after project completion, notice to proceed, final loan disbursement or three years after loan agreement date. Final payment is due not later than twenty years after project completion. 45,359,733.21

Twenty loans with the County of Maui, Board of Water Supply; due in semiannual payments, including interest ranging from 0.00% to 1.00%, commencing not later than one year after project completion, notice to proceed, final loan disbursement or three years after loan agreement date. Final payment is due not later than twenty years after project completion. 46,123,083.56

Fifteen loans with the County of Kauai, Board of Water Supply; due in semiannual payments, including interest ranging from 0.16% to 1.37%, commencing not later than one year after project completion, notice to proceed, final loan disbursement or three years after loan agreement date. Final payment is due not later than twenty years after project completion. 20,238,207.37

Total \$178,038,017.82

SFY 2018 DWTRLF ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Loans mature at various dates through 2039. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2019	\$ 9,258,793.31
SFY2020	\$ 10,405,900.37
SFY2021	\$ 11,164,481.41
SFY2022	\$ 11,144,042.31
SFY2023	\$ 10,597,376.60
Thereafter	<u>\$125,467,423.82</u>
	<u>\$178,038,017.82</u>

As of June 30, 2018, accrued interest receivable and accrued administration loan fee receivable on loans totaled \$107,508.87 and \$640,866.24, respectively.

The program believes that all loans will be repaid according to the loan terms. Accordingly, no provision for uncollectible amounts has been recorded.

As of June 30, 2018, the DWTRLF has committed to make additional loans to the following government entities:

City & County of Honolulu, Board of Water Supply	\$ 5,000,000.00
County of Hawaii, Water Board	-
County of Kauai, Board of Water Supply	-
County of Maui, Board of Water Supply	<u>5,000,000.00</u>
Total	\$10,000,000.00

NOTE E - FEDERAL FUNDING AND STATE MATCH

The DWTRLF is capitalized by grants from EPA authorized by Section 1452 of the Safe Drinking Water Act (the Act) with matching funds from the state. As of June 30, 2018, EPA has awarded \$182,599,558.00 to the state, of which \$177,517,575.58 has been drawn down for loans and set asides. The state has also legislated and committed matching funds of \$36,519,912.00.

SFY 2018 DWTRLF ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS (continued)

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The table below summarizes the capitalization grants awarded, amounts drawn on each grant, and the balances available for future activity as of June 30, 2018:

Budget Period	FFY	Amount	DWTRLF Cash Draws	EPA Draws (deducted prior to issuance of cap grant)	Funds Available
Carryover from previous years:	(1997 – 1999)	\$ 27,143,900.00	\$ 27,143,900.00	\$ -	\$ -
02/26/01 - 06/30/08	2000	\$ 7,757,000.00	\$ 7,682,000.00	\$ 75,000.00 ¹	\$ -
09/01/02 - 09/30/08	2001	\$ 7,789,100.00	\$ 7,765,100.00	\$ 24,000.00 ²	\$ -
10/01/03 - 06/30/11	2002	\$ 8,052,500.00	\$ 8,052,500.00	\$ -	\$ -
04/01/04 - 06/30/11	2003	\$ 8,004,100.00	\$ 8,004,100.00	\$ -	\$ -
10/01/05 - 06/30/13	2004	\$ 8,303,100.00	\$ 8,303,100.00	\$ -	\$ -
09/01/06 - 06/30/16	2005	\$ 8,285,500.00	\$ 8,283,000.00	\$ 2,500.00 ³	\$ -
07/01/07 - 06/30/17	2006	\$ 8,229,300.00	\$ 8,229,300.00	\$ -	\$ -
03/01/08 - 06/30/17	2007	\$ 8,229,000.00	\$ 8,229,000.00	\$ -	\$ -
03/01/09 - 06/30/18	2008	\$ 8,146,000.00	\$ 8,146,000.00	\$ -	\$ -
01/01/10 - 06/30/19	2009	\$ 8,146,000.00	\$ 8,146,000.00	\$ -	\$ -
04/01/11 - 06/30/17	2010	\$ 13,573,000.00	\$ 13,573,000.00	\$ -	\$ -
09/30/11 - 06/30/18	2011	\$ 9,268,000.00	\$ 9,268,000.00	\$ -	\$ -
09/28/12 - 06/30/19	2012	\$ 9,125,000.00	\$ 9,125,000.00	\$ -	\$ -
09/30/13 - 06/30/20	2013	\$ 8,421,000.00	\$ 7,971,000.00	\$ 450,000.00 ⁴	\$ -
12/01/14 - 06/30/21	2014	\$ 8,787,058.00	\$ 8,787,058.00	\$ -	\$ -
10/01/15 - 06/30/19	2015	\$ 8,787,000.00	\$ 8,201,000.00	\$ 586,000.00 ⁵	\$ -
10/01/16 - 06/30/20	2016	\$ 8,312,000.00	\$ 7,874,857.34	\$ 315,000.00 ⁶	\$ 122,042.66
10/01/17 - 06/30/22	2017	\$ 8,241,000.00	\$ 3,281,060.24	\$ -	\$ 4,959,939.76
		\$182,599,558.00	\$176,065,075.58	\$1,452,500.00	\$ 5,081,982.42

¹ The contract amounts for Northbridge (\$25,000) and Cadmus (\$50,000) were deducted from the set-asides (4% and 10%, respectively) FFY2000 cap grant. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

² The \$24,000 was deducted from the FFY2001 cap grant, 10% set-aside for the Cadmus Contract. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

³ The \$2,500 was deducted from the 4% set-aside prior to the issuance of the FFY2005 cap grant for an EPA County workshop. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

⁴ The \$450,000 was deducted prior to the issuance of the FFY2013 cap grant to pay for the Northbridge LGTS computer system. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

⁵ The \$586,000 was deducted prior to the issuance of the FFY2015 cap grant to pay for the Northbridge LGTS computer system, Management Study, and Cadmus. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

⁶ The \$315,000 was deducted prior to the issuance of the FFY2016 cap grant to pay for the Northbridge LGTS computer system and Management Study. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

SFY 2018 DWTRLF ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS (continued)

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The table below summarizes the state match funds for each EPA capitalization grant awarded to the DWTRLF. The list shows the federal fiscal year (grant year), source of state funds, and dollar amount of state match for each EPA capitalization grant as of June 30, 2018.

Federal Fiscal Year	Source of State Funds		20% State Match Amount
Totals from previous years:	SFY's 1997 - 2007		\$ 18,358,700.00
2008	Act 158/08	\$ 1,084,900.00	\$ 1,629,200.00
	Act 213/07	\$ 544,300.00	
	Total 08 Match		
2009	Act 162/09	\$ 1,043,100.00	\$ 1,629,200.00
	Act 158/08	\$ 586,100.00	
	Total 09 Match		
2010	Act 180/10	\$ 2,127,700.00	\$ 2,714,600.00
	Act 162/09	\$ 586,900.00	
	Total 10 Match		
2011	Act 164/11	\$ 1,266,300.00	\$ 1,853,600.00
	Act 180/10	\$ 587,300.00	
	Total 11 Match		
2012	Act 106/12	\$ 376,300.00	\$ 1,825,000.00
	Act 164/11	\$ 1,448,700.00	
	Total 12 Match		
2013	Act 134/13	\$ 1,684,200.00	\$ 1,684,200.00
	Total 13 Match		
2014	Act 122/14	\$ 1,757,412.00	\$ 1,757,412.00
	Total 14 Match		
2015	Act 119/15	\$ 1,757,400.00	\$ 1,757,400.00
	Total 15 Match		
2016	Act 124/16	\$ 1,662,400.00	\$ 1,662,400.00
	Total 16 Match		
2017	Act 49/17	\$ 1,648,200.00	\$ 1,648,200.00
	Total 17 Match		
	Total 20% State Match		\$ 36,519,912.00

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

NOTE F - EQUIPMENT

The following are the changes in equipment and accumulated depreciation during the year:

The following are the changes in equipment and accumulated depreciation during the year:

	Balance at July 1, 2017	Adjustments*	SFY 2018		Balance at June 30, 2018
			Increases	Decreases	
Equipment	\$2,510,866.03	\$ -	\$ -	\$ 1,756.01	\$2,509,110.02
Accumulated Depreciation	(1,878,780.78)	-	(201,160.70)	(1,756.01)	(2,078,185.47)
	\$ 632,085.25	\$ -	\$ (201,160.70)	\$ -	\$ 430,924.55

NOTE G – EMPLOYEE BENEFIT PLANS

1. Employees' Retirement System

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS' website: <http://www.ers.ehawaii.gov>.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an

NOTES TO FINANCIAL STATEMENTS (continued)

State of Hawaii Drinking Water Treatment Revolving Loan Fund

average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

- Retirement Benefits – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- Death Benefits – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

- Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- Death Benefits - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump-sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Contributory Class for Members Hired After June 30, 2012

- Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

- Disability and Death Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

- Death Benefits – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.
- Disability and Death Benefits – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2018 were 25.00% for police and firefighters and 17.00% for all other employees. Contributions to the pension plan from the DWTRLF were \$187,919 for the fiscal year ended June 30, 2018.

On May 18, 2017, the Governor signed into law Act 17 SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for all employees, except for police officers and firefighters, increases to 18.00% on July 1, 2017; 19.00% on July 1, 2018; 22.00% on July 1, 2019; and 24.00% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the DWTRLF reported a liability of \$2,430,137 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. The DWTRLF's proportion of the net pension liability was based on an allocation of the State's net pension liability based on the proportionate share of qualified payroll. At June 30, 2017 and 2016, the DWTRLF's proportion of the State's proportion was 0.04%.

There were no other changes in assumptions between the measurement date, June 30, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the proportionate share of the net pension liability.

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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

For the year ended June 30, 2018, the DWTRLF recognized pension expense of \$393,738. At June 30, 2018, the DWTRLF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 95,994	\$ (32,270)
Changes in assumptions	448,593	--
Net difference between projected and actual earnings on pension plan investments	--	(445,837)
Changes in proportion and difference between DWTRLF contributions and proportionate share of contributions	19,562	(6,905)
DWTRLF contributions subsequent to the measurement date	<u>187,919</u>	<u>--</u>
	<u>\$ 752,068</u>	<u>\$ (485,012)</u>

The \$187,919 reported as deferred outflows of resources related to pensions resulting from DWTRLF contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 59,921
2020	8,825
2021	7,422
2022	2,909
2023	<u>60</u>
Total	<u>\$ 79,137</u>

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Employees' Retirement System of the State of Hawaii, on December 12, 2016, based on the most recent experience study dated July 5, 2016:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annual including inflation

There were no changes to ad hoc postemployment benefits including COLA.

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Strategic Allocation (risk-based classes)	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	63.0%	5.8%
Principal protection	7.0%	0.2%
Real return	10.0%	3.6%
Crisis risk offset	20.0%	3.1%
	<u>100%</u>	

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Discount Rate

The discount rate used to measure the net pension liability was 7.00%, the same rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

Sensitivity of the DWTRLF's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the DWTRLF's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the DWTRLF's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
DWTRLF's proportionate share of the net pension liability	\$3,801,193	\$2,430,137	\$2,215,901

Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at <http://www.ers.hawaii.gov>.

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The State's comprehensive annual financial report contains further disclosures related to the State's proportionate share of the net pension liability and employer pension contributions.

Payables to the Pension Plan

At June 30, 2018, there was no payable to the ERS.

2. Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.

3. Post-Employment Health Care and Life Insurance Benefits

Plan Description

The state provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, Session Laws of Hawaii (SLH) of 2001, the state contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan, effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents.

State Policy

The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the state's policy on the accounting and reporting for OPEB is to allocate a portion of the state's ARC, interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the state's Comprehensive Annual Financial Report (CAFR). The basis for the allocation is the proportionate share of contributions made by each component unit or proprietary fund for retiree health benefits.

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NOTES TO FINANCIAL STATEMENTS (continued)

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the DWTRLF was approximately \$211,000 for the fiscal year ended June 30, 2018. The employer is required to make all contributions for members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the DWTRLF reported a liability of \$2,784,836 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The State's proportion of the net OPEB liability was based on a projection of the State's long-term share of contributions to the EUTF relative to projected contributions of all participants, actuarially determined. The DWTRLF's proportion of the net OPEB liability was based on an allocation of the State's net OPEB liability based on the proportionate share of qualified payroll. At June 30, 2017 and 2016, the DWTRLF's proportion of the State's share was 0.03%.

There were no changes in assumptions between the measurement date, June 30, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

For the year ended June 30, 2018, the DWTRLF recognized OPEB expense of \$201,308. At June 30, 2018, the DWTRLF reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ --	\$ --
Changes in assumptions	--	--
Net difference between projected and actual earnings on investments	--	(3,986)
DWTRLF contributions subsequent to the measurement date	210,849	--
	<u>\$ 210,849</u>	<u>\$ (3,986)</u>

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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The \$210,849 reported as deferred outflows of resources related to OPEB resulting from DWTRLF contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Amount</u>
2019	\$ (797)
2020	(797)
2021	(797)
2022	(797)
2023	(798)
Total	<u>\$ (3,986)</u>

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry age normal
Discount rate	7.00%
Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7.00%, net of investment expenses, including inflation
Demographic assumptions	Based on the experience study covering the five year period ended June 30, 2015, as conducted for the ERS System-specific mortality tables utilizing scale BB to project generational mortality improvement
Mortality	
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution (BMC). Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50 %, or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare trend rates:	
PPO*	Initial rates of 6.60%, 6.60%, and 9.00%; declining to a rate of 4.86% after 14 years
HMO*	Initial rate of 9.00%; declining to a rate of 4.86% after 14 years
Part B & BMC	Initial rates of 2.00% and 5.00%; declining to a rate of 4.70% after 14 years
Dental	3.50%
Vision	2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drug.

The long-term expected rate of return on EUTF's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return
U.S. Equity	19.00%	5.50%
International equity	19.00%	7.00%
U.S. microcap	7.00%	7.00%
Private equity	10.00%	9.25%
REITs	6.00%	5.85%
Core real estate	10.00%	3.80%
Global options	7.00%	5.50%
Core bonds	3.00%	0.55%
Long treasuries	7.00%	1.90%
Trend following	7.00%	1.75%
TIPS	5.00%	0.50%
	<u>100.0%</u>	

Discount Rate

Projected benefits payments are required to be discounted to their actual present values using a single discount rate that reflects (1) a long-term expected rate of return on the EUTF's investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

A single discount rate of 7.00% was used to measure the total OPEB liability. This discount rate was based on the expected rate of return on the EUTF's investments of 7.00%. Beginning with the fiscal year 2019 contributions, the State's funding policy is to pay the recommended actuarially determined contributions, which is based on layered, closed amortization periods. As a result, the EUTF's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on EUTF's investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

SFY 2018 DWTRLF ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS (continued)

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2017.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning Balance	\$ 2,890,305	\$ 144,189	\$ 2,746,116
Service Cost	53,125	--	53,125
Interest on the total OPEB liability	161,311	--	161,311
Changes of benefit terms	--	--	--
Difference between expected and actual experience	--	--	--
Changes of assumptions	--	--	--
Employer contributions	--	158,602	(158,602)
Net investment income	--	15,880	(15,880)
Benefit payments	(79,755)	(79,755)	--
Administrative expense	--	(41)	41
Other	--	1,275	(1,275)
Net Changes	134,681	95,961	38,720
Ending balance	\$ 3,024,986	\$ 240,150	\$ 2,784,836

Sensitivity of the DWTRLF's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the DWTRLF's proportionate share of the net OPEB liability calculated using the discount rate of 7.00%, as well as what the DWTRLF's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
DWTRLF's proportionate share of the net OPEB liability	\$ 3,268,514	\$ 2,784,836	\$ 2,393,441

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Sensitivity of the DWTRLF's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the DWTRLF's proportionate share of the net OPEB liability calculated using current healthcare cost trend rates, as well as what the DWTRLF's proportionate share of the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
DWTRLF's proportionate share of the net OPEB liability	<u>\$ 2,370,904</u>	<u>\$ 2,784,836</u>	<u>\$ 3,307,265</u>

OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position is determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued EUTF financial report. EUTF's complete financial statements are available at <http://eutf.hawaii.gov>.

Required Supplementary Information and Disclosures

The State's CAFR includes the required footnote disclosures and supplementary information on the State's OPEB plan.

NOTE H – INSURANCE COVERAGE

Insurance coverage is maintained at the State level. The State is self-insured for substantially all perils including workers' compensation. Expenditures for workers' compensation and other insurance claims are appropriated annually from the State's general fund.

NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The Department is covered by the State's self-insured workers' compensation program for medical expenses of injured Department employees. However, the Department is required to pay temporary total and temporary partial disability benefits as long as the employee is on the Department's payroll. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claim liabilities may be re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Workers' compensation benefit claims reported as well as incurred but not reported were reviewed at year end. The estimated losses from these claims were not material.

ATTACHMENT 6: SUMMARY OF ACTIVE PROJECTS IN SFY 2018

BORROWER: HAWAII DEPARTMENT OF WATER SUPPLY

DW101-0003 PIIHONUA-KUKUAU RESERVOIR AND TRANSMISSION IMPROVEMENTS



▲ New 2.0 MG tank

LOAN AMOUNT: \$9,429,173.00
PRINCIPAL FORGIVENESS: \$1,757,400.00 (18.64%)
AMOUNT DISBURSED IN SFY 2018: \$5,975,737.25
PUBLIC WATER SYSTEM (PWS) 101 SERVICE
POPULATION: 38,885

Project Description: Replace the undersized and deteriorating 0.08 MG in ground reservoir with a new 2.0 MG concrete water tank and install a 16" transmission waterline to supplement existing waterlines that are inadequate to supply portions of the Hilo water system during peak usage.

DW130-0003 WAIMEA WATER TREATMENT PLANT MICROFILTRATION

LOAN AMOUNT: \$12,896,000.00
AMOUNT DISBURSED IN SFY 2018: \$3,268,110.20
PWS 130 SERVICE POPULATION: 9,480

Project Description: Construct a microfiltration plant to increase reliability and better turbidity removal performance to meet the Long Term 2 Surface Water Treatment Rule. The new treatment plant will also reduce the need to pump wells to supplement the water system's demands.



▲ New treatment building
◀ Microfiltration basin

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DW102-0001 LAUPAHOEHOE 0.5 MG RESERVOIR



▲ *New 0.5 MG tank*

LOAN AMOUNT: \$4,158,170.00

AMOUNT DISBURSED IN SFY 2018: \$127,085.42

PWS 102 SERVICE POPULATION: 1,164

Project Description: Replace the undersized and deteriorating 0.10 MG water tank with a new 0.5 MG concrete reservoir for adequate storage to meet system demand. Work also includes site improvements, and a new building for electrical/control upgrades.

DW133-0004 KAPULENA WELL DEVELOPMENT, PH 2 (PRODUCTION WELL AND 0.3 MG RESERVOIR)

LOAN AMOUNT: \$4,388,782.00

AMOUNT DISBURSED IN SFY 2018: \$1,917,881.59

PWS 133 SERVICE POPULATION: 443

Project Description: Outfit the exploratory well into a production well to replace Waiulili Springs (a GWUDI source) and the existing Kukuihaele Well (low sustainable yield ~ 50 gpm and high total chloride levels) with a new groundwater source and related electrical controls. Project includes a new 0.3 MG reservoir, and new waterlines to connect the Kapulena Well with the existing Kukuihaele reservoir (0.1 MG) and provide fire protection.



▲ *New 0.3 MG tank*

◀ *Newly-outfitted well*

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DW101-0002 AHUALOA-HONOKAA TRANSMISSION WATERLINE

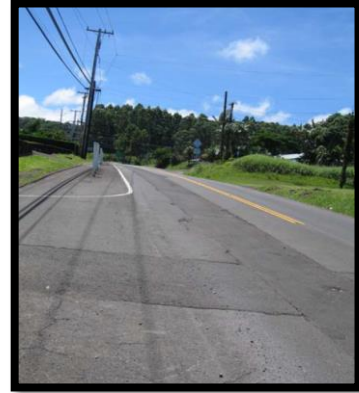
LOAN AMOUNT: \$3,200,000.00

AMOUNT DISBURSED IN SFY 2018: \$76,890.00

PWS 161 SERVICE POPULATION: 4,487

Project Description: Construct a 12" waterline from the Ahualoa production well to the Haina system. Replace existing pipeline prone to breaks and leaks.

New 12" waterline installed under Old Mamalahoa Highway ➤



HDWS-PF18 HAWAII DWS PROFI SFY 2018

LOAN AMOUNT: \$5,000,000.00

AMOUNT DISBURSED IN SFY 2018: \$3,089,432.17

ISLANDWIDE SERVICE POPULATION: 80,873

Project Description: Water system improvements on the Island of Hawaii. Sub-projects include seven (7) deepwell repairs (Hualalai, Palani, Keopu, Hawi #2, Kalaoa #1, Honokohau, and Hawaiian Ocean View Estates (HOVE)), Waikoloa Reservoir #1 Earthquake Repairs, Kaieie Mauka Facility Improvements, Halaula Well Development Phase 2, and Waiaha Transmission Waterline Improvements.



➤ HOVE well site

BORROWER: MAUI DEPARTMENT OF WATER SUPPLY

DW212-0015 IAO SURFACE WATER TREATMENT PLANTS UPGRADES



LOAN AMOUNT: \$21,500,000.00

AMOUNT DISBURSED IN SFY 2018: \$13,518,344.96

PWS 212 SERVICE POPULATION: 74,511

Project Description: Replace the temporary 1.2 MGD Iao Surface Water Treatment Plant that lacked shelter and was exposed to the elements. Install new microfiltration units and related filter backwash facilities (for a 1.2 MGD capacity) and high efficiency pumps.

▲ *New treatment building (green, foreground) and chlorine contact tank (background)*

◀ *Membrane filtration units*

DW212-0018 WAILUKU HEIGHTS TANK 30 BOOSTER REPLACEMENT

LOAN AMOUNT: \$1,804,849.00

AMOUNT DISBURSED IN SFY 2018: \$1,514,736.44

PWS 212 SERVICE POPULATION: 74,511

Project Description: Replace booster pumps and motors, and related piping. Replace the Motor Control Center (MCC) and related electrical controls.

One of the new booster pumps ➤



▲ *MCC in new control building*

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DW217-0005 WAKIU WELL REPLACEMENT



LOAN AMOUNT: \$2,248,485.65

AMOUNT DISBURSED IN SFY 2018: \$59,952.60

PWS 217 SERVICE POPULATION: 1,284

Project Description: Install a new well to replace an existing source that has high chloride levels. This source will provide reliability to the Hana water system.

➤ *Wakiu Well*

DW215-0009 PHASE 6 BOOSTER PUMP UPGRADES

LOAN AMOUNT: \$4,000,000.00

PRINCIPAL FORGIVENESS: \$1,769,000.00 (44.23%)

AMOUNT DISBURSED IN SFY 2018: \$149,214.10

PWS 215 SERVICE POPULATION: 7,686

Project Description: Replace booster pumps and related equipment at 3 booster pump stations; Kula Kai, Middle Kimo, and Upper Kimo water tanks.



➤ *Kula Kai pump*



➤ *Upper Kimo pumps*



➤ *Middle Kimo electrical equipment*

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DW247-0008 OMAPIO 2.1 MG TANK REPLACEMENT

LOAN AMOUNT: \$4,183,000.00

PRINCIPAL FORGIVENESS: \$45,000.00 (1.08%)

AMOUNT DISBURSED IN SFY 2018: \$3,033,742.76

PWS 247 SERVICE POPULATION: 3,522

Project Description: Construct a new 2.1 MG concrete water tank to replace the existing Omaopio Tank, which is at the end of its useful life.

New Omaopio Tank ➤



MDWS-0001 SOURCE GENERATOR INSTALLATION – 4 SITES



LOAN AMOUNT: \$1,200,000.00

AMOUNT DISBURSED IN SFY 2018: \$121,469.80

SERVICE POPULATION: 140,000

Project Description: Replace source generators and related electrical equipment at 4 well-sites (Homua, Honokahua B, Napili C, and Ualapue) for system resiliency.

➤ *Source generator for the Hamoa site*



➤ *New Automatic Transfer Switch (ATS) for the Honokahua B site*



➤ *Source generator for the Napili C site*

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BORROWER: HONOLULU BOARD OF WATER SUPPLY

DW331-0068 ENERGY SAVINGS PERFORMANCE CONTRACTING – BWS FACILITIES

LOAN AMOUNT: \$ 21,921,222.00
(ADDITIONAL \$10,960,611.00 INCREASE
ANTICIPATED FOR SFY 2019)
PRINCIPAL FORGIVENESS: \$1,662,400.00
(7.58%)
AMOUNT DISBURSED IN SFY 2018:
\$4,423,915.39
ISLANDWIDE SERVICE POPULATION:
998,714



▲ PV panels installed on the
Waiau 550 reservoir

Project Description: Implement an Energy Savings Performance Contract (ESPC) project on Honolulu Board of Water Supply (BWS) facilities, island wide, with a goal of reducing energy demand by 20%. Energy saving measures include installation of LED lighting, photovoltaic (PV) panels, hybrid vehicles and charging stations, etc.

DW331-0047 KALIHI WATER SYSTEM IMPROVEMENTS, PART III



▲ Bannister St + Banister Pl

LOAN AMOUNT: \$5,068,079.00
PRINCIPAL FORGIVENESS: \$750,000.00 (14.80%)
AMOUNT DISBURSED IN SFY 2018: \$1,053,727.12
PWS 331 SERVICE POPULATION: 630,266

Project Description: Install mains and appurtenances along Bannister Pl from Bannister St to dead end; along Bannister St from Laumaka St to North King St; along Gulick Ave from Wilcox Ln to North King St; along Kopke St from Wilcox Ln to North King St; along Factory St from Stanley St to North King St; along Puuhale Rd from Dillingham Blvd to North King St; along Wilcox Ln from Bannister St to Puuhale Rd; along Stanley St from Bannister St to Puuhale Rd; along Waterhouse St from Bannister St to Puuhale Rd; along Mokauea St from Democrat St to Kanakanui St; along Industrial Rd from Waterhouse St to Puuhale Rd - approx. 9,650 lin. ft.

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HBWS-0003 HONOLULU BWS WATER SYSTEM IMPROVEMENTS 2

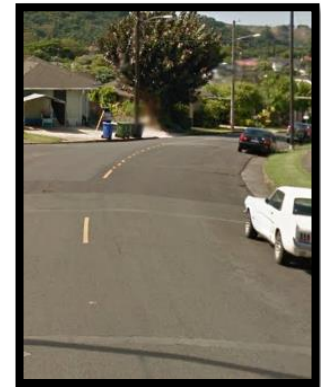
LOAN AMOUNT: \$11,652,948.03

AMOUNT DISBURSED IN SFY 2018: \$3,086,390.31

PWS 331 SERVICE POPULATION: 630,266

Project Description: This project combines three (3) BWS waterline improvement projects to reduce the chance of water main breaks.

Liliha Water System Improvements, Part V: Install 8-inch mains and appurtenances along Liliha St from Wyllie St to end, along Puunui Ave from Wyllie St to Hawaii St, along Kauai St from Liliha St to Puunui Ave, along Lanai St from Wyllie St to Liliha St, and along Hawaii St from Liliha St to Puunui Ave - approx. 5,600 lin.ft.



▲ *Kauai Street*

Pensacola Street Water System Improvements: Install mains and appurtenances along Pensacola St from Kapiolani Blvd to Young St, along Pensacola St from Young St to existing 8-inch main, and along Piikoi St from Pensacola St to Lewalani Dr - approx. 6,520 lin. ft.

▼ *Olu Street*

Kapahulu Water System Improvements, Part I: Install 8-inch mains and appurtenances along Paliuli St, Mokihana St, and Olu St, along Kaimuki Ave from 4th Ave to Kapahulu Ave; along Lincoln Avenue from 4th Ave to Kapahulu Ave; along Pahoia Ave from 4th Ave to 3rd Ave; along 3rd Ave from Kaimuki Ave to H-1 and from H-1 to Waialae Ave; along Belser St from Kaimuki Ave to H-1 and from H-1 to Harding Ave; along 2nd Ave from Lincoln Ave to Fire Hydrant M-1349 and from H-1 to Waialae Ave; and along Aloalo Pl from Harding Ave to end - approx. 8,400 lin. ft.

